ANNUAL REPORT 1990

BCE Inc.

Bell

Bell Canada is Canada's largest supplier of telecommunications services, providing advanced voice, data and image communications to some seven million customers in Quebec, Ontario and the eastern Arctic.

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Northern Telecom Limited is a leading global supplier of fully digital telecommunications systems. It is 53.1 per cent owned by BCE and its common shares are listed on the New York, Toronto, Montreal, Vancouver, London and Tokyo stock exchanges.

BNR

Bell-Northern Research Ltd. is Canada's largest research and development organization, and is a world leader in the design and development of advanced telecommunications systems. It is 70 per cent owned by Northern Telecom and 30 per cent by Bell Canada.

BCE TELECOM INTERNATIONAL

BCE's international investment and consulting interests are positioned under the direction of BCE Telecom International Inc. These interests include, among others, Bell Canada International, BCE's international consulting arm.

BCE MOBILE

BCE Mobile Communications Inc. provides cellular telephone, paging, telephone answering, and private and shared radio systems and services. At year-end, BCE owned 69.7 per cent of BCE Mobile, whose shares are traded on the Montreal and Toronto stock exchanges.

MONTREAL TRUST

Montreal Trustco Inc., wholly owned by BCE, markets financial and trust services to individuals, businesses, governments and institutions through branches and offices across Canada.

The annual reports to shareholders of BCE's public companies may be obtained directly from those companies, or by request to the Vice-President and Corporate Secretary of BCE Inc.

The background for the cover photograph is a high-powered microscope view of a gallium arsenide integrated circuit. This particular microchip, developed at Bell-Northern Research's Advanced Technology Laboratory in Nepean, Ontario, functions in Northern Telecom's S/DMS TransportNode, a FiberWorld transmission product introduced commercially in 1990.

A full view of the microchip appears on page 10.

1991 annual meeting

The annual meeting of BCE shareholders will take place at 10 a.m., Wednesday, May 1, 1991, at the Ottawa Congress Centre, 55 Colonel By Drive, Ottawa, Ontario.

BCE is a management holding corporation whose core businesses are the provision of telecommunications services and telecommunications equipment manufacturing. It is a leader in international telecommunications consulting services. BCE also has major interests in financial services and in a number of other businesses.*

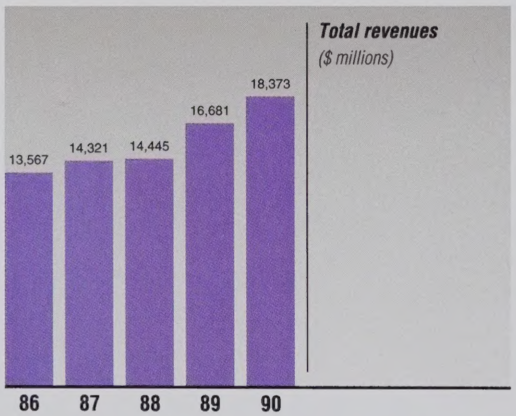
BCE has the largest number of registered shareholders of any Canadian corporation, and its common shares are listed on exchanges in Canada, the United States, Europe and Japan.

BCE Inc.
Executive Offices
2000 McGill College Avenue
Suite 2100
Montreal, Quebec H3A 3H7

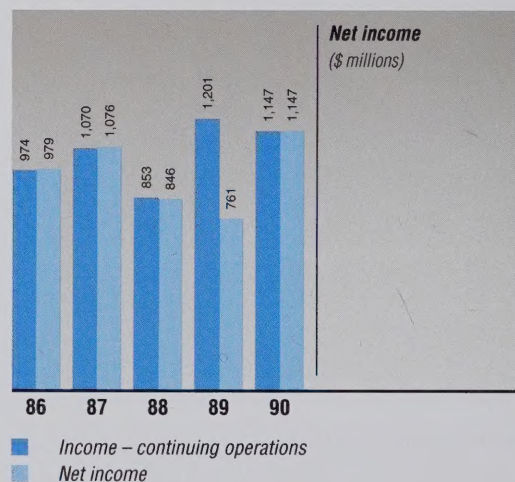
Contents

Financial highlights

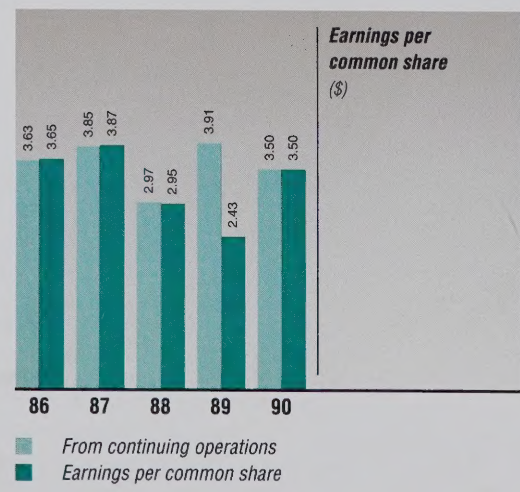
($ millions, except per share amounts)	1990	1989	1988
Total revenues	18,373	16,681	14,445
Income from continuing operations	1,147	1,201	853
Loss from discontinued real estate operations	—	(440)	(7)
Net income	1,147	761	846
Net income applicable to common shares	1,062	724	841
Earnings per common share			
Continuing operations	3.50	3.91	2.97
Discontinued real estate operations (loss)	—	(1.48)	(0.02)
	3.50	2.43	2.95
Return on common equity	10.8%	7.6%	9.2%
Total assets	41,987	39,261	25,988
Gross capital expenditures	3,318	3,239	3,074



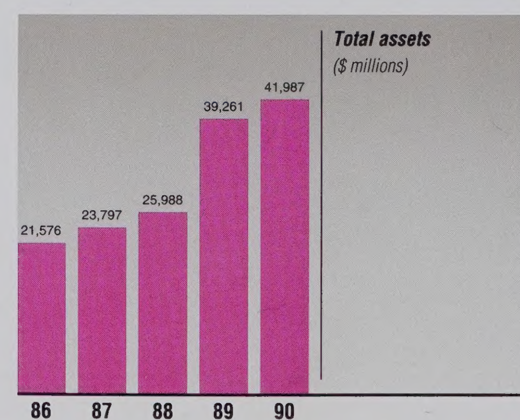
Total revenues
($ millions)



Net income
($ millions)



Earnings per common share
($)



Total assets
($ millions)

1990 was an eventful and a successful year for BCE. Our major investments, now focussed on telecommunications and related services, have performed strongly. In terms of both earnings and growth potential, the BCE companies are positioned well for the future.

The process of building BCE's telecommunications business required some important decisions during the year.

While the major portion of our investments is in Canada, many growth opportunities in telecommunications exist in the international arena. For this reason, we decided to create two management groups in order to define responsibility for these two very different areas of activity. One management group will oversee BCE's investments in telecommunications companies within Canada; the other will develop and manage telecommunications interests abroad.

Another major decision was to sell most of our energy-related interests and to divest the remainder by the close of 1992. These interests are TransCanada PipeLines Limited, which owns and operates the longest gas pipeline in Canada, and Encor Inc., engaged in oil and gas exploration and development. These are both sound companies, but they are not businesses central to BCE's long-term strategy.

The immediate effect of this concentration on the telecommunications business has been positive. Financial results of the corporation in 1990 showed a solid return to earnings growth. Net income reached $1.15 billion, just over the previous high of $1.08 billion achieved in 1987. Earnings of $3.50 per common share were 44 per cent higher than last year. This return to earnings growth resulted from several key factors:

First, Bell Canada and most of the other telecommunications companies in which BCE holds investments have continued to report solid performance.

Bell Canada's contribution to earnings per share in 1990 was $2.97, up eight per cent from $2.75 in 1989. This was achieved despite the slowdown in Canada's economy evident in the last half of the year. Bell Canada experienced lower growth in earnings from long distance service, but the rate of increase in network access services, although slower than last year, supported record earnings. In addition, investments made in digital and fiber optic equipment have increased efficiency and reduced costs, and Bell Canada employees have continued to provide service at the highest level.

Second, Northern Telecom posted record earnings, improving its contribution to BCE's consolidated net income by 20 per cent over 1989, to $0.89 per share. These results were achieved despite recessionary conditions in both the United States and Canada, Northern Telecom's principal markets.

In 1988, Northern Telecom launched a major restructuring program to prepare for global competitiveness.

"Financial results in 1990 showed a solid return to earnings growth. Net income reached $1.15 billion, just over the previous high of $1.08 billion achieved in 1987."

J.V. Raymond Cyr

To reinforce its competitive capabilities, Northern Telecom also announced, in February 1991, an important realignment of its marketing structure.

Northern Telecom today is a formidable international competitor and a major contributor to BCE's earnings. The purchase of STC PLC, finalized in early 1991, will further strengthen Northern Telecom and provide a significant base for European expansion.

A third factor in the corporation's improved financial performance was the sale, during the fourth quarter, of half of its 48.8 per cent holding in TransCanada PipeLines and the issue of warrants for the other half, resulting in a gain of $0.39 per share for the year. Assuming full exercise of the warrants, by late 1992 BCE will have disposed of all TransCanada common shares. TransCanada's contribution to BCE's earnings per share has been $0.22 for both 1990 and 1989. In 1988, a loss and an asset provision had a negative impact on BCE's earnings of $0.12 per share.

Encor, set up in 1989 to hold TransCanada's oil and gas interests, posted losses in both 1989 and 1990. In July, in a transaction involving both common shares and warrants to purchase common shares of Encor, BCE sold the bulk of its common share holding in Encor. This reduced the negative impact of Encor losses on BCE's results. By early 1992, assuming full exercise of the warrants, BCE will have sold all its Encor common shares.

Fourth, despite the economic slowdown in the last half of the year, Montreal Trust reported solid results due to its strong position in the corporate and personal trust businesses, its experienced management and its high quality loan portfolio.

Net income was $65 million in 1990, off slightly from $71 million in 1989 due to two factors: a $6 million one-time charge taken in order to withdraw from unprofit-

able real estate brokerage businesses, and a $12 million increase in general loan loss provisions to reflect changes in the current economic climate. Montreal Trust contributed $0.14 to BCE's consolidated earnings per share in 1990.

Finally, contrary to the experience in 1989, earnings in 1990 were not affected by losses at BCE Development Corporation. In 1989, we took a $440 million charge against income and wrote off our investment in BCED. BCE is participating with Carena Developments Limited in an effort to restructure BCED. The principal business operations of BCED are now carried out through its wholly owned subsidiary Brookfield Development Corporation. Brookfield is restructuring corporate and property debt, disposing of non-strategic assets and reducing costs.

BCE's earnings in 1990 were reduced by a provision of $244 million, after taxes, against loans made to Kinburn Corporation and against a common share investment in SHL Systemhouse Inc., a Kinburn subsidiary. Kinburn has defaulted on substantial loans provided by a syndicate of banks, as well as by BCE. The carrying value of our investments in Kinburn and SHL has been reduced to $63 million.

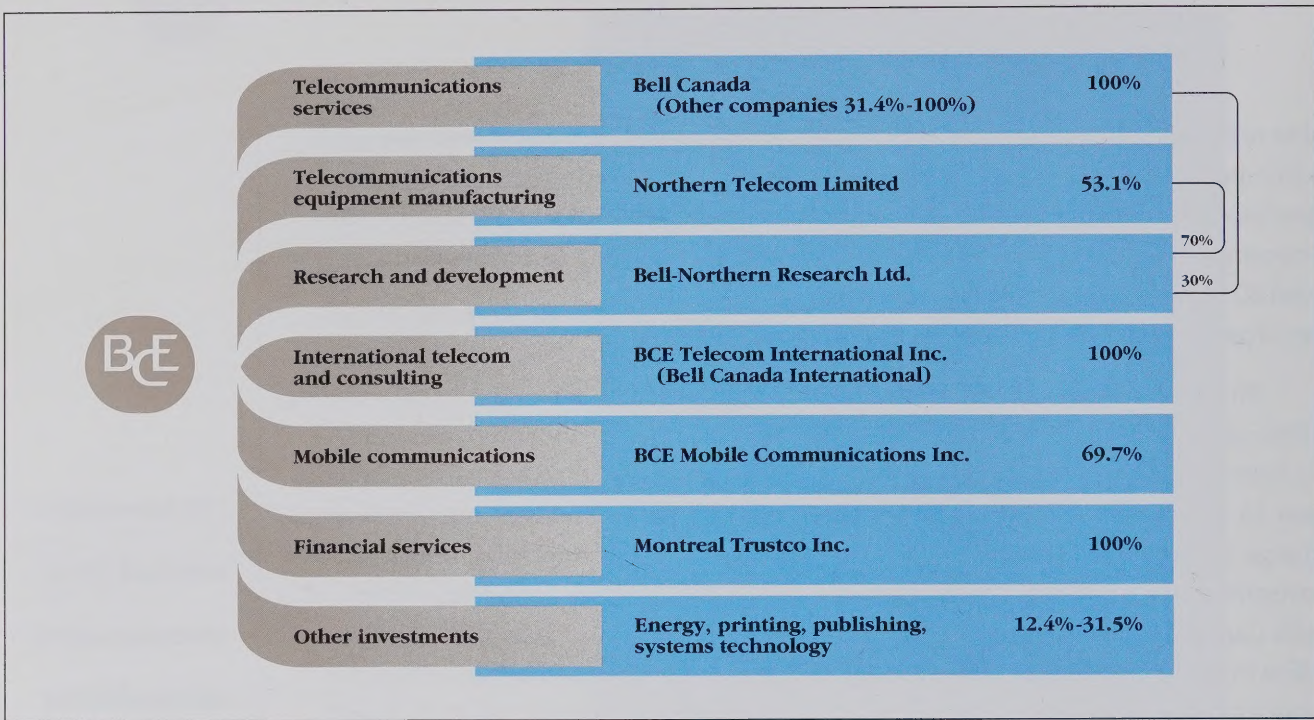
In the past three years, we have had to make several difficult decisions affecting short-term profits. In refocussing our efforts on the longer term, we have attempted to keep our shareholders fully informed. This candour has helped to maintain the loyalty of our shareholders and the confidence of financial markets.

The future of BCE is in the broad field of telecommunications and related services. BCE is one of the world's leading telecommunications companies, and it has unique strengths across the entire spectrum of the industry: telecom services, equipment manufacturing, research and development, consulting, mobile communications and, in the United Kingdom, cable distribution. These are all businesses that will see growth well into the next century.

Opportunities are emerging around the world as state-owned telecommunications companies are privatized, and as many markets such as cellular are opening up. The work of BCE subsidiaries in seeking out international business covers not only technology, but also administration, management and financing know-how. BCE Telecom International, Bell Canada International and Northern Telecom are exploring these markets, to develop and pursue appropriate opportunities.

However, open markets also produce intense rivalry among international companies. It is evident that, if BCE companies are to succeed in today's competitive environment, they must remain among the very best in the world. This is an ongoing challenge.

"The future of BCE is in the broad field of telecommunications and related services. BCE is one of the world's leading telecommunications companies, and it has unique strengths across the entire spectrum of the industry."



We are fortunate at BCE to be able to depend on the contributions of thousands of skilled and dedicated employees. Their commitment remains vital. As the pace of change accelerates, the training, skills and, most particularly, the motivation of employees become ever more important. The desire to improve the level of service and the quality of products is vital for success. As international competition intensifies, the "human factor" will decide the outcome.

Over the next year, BCE companies will undoubtedly be affected by the recession. The rapid increase in revenues which some subsidiaries have seen in recent years will probably slow, placing emphasis on new ways to generate revenues and earnings. The impetus towards improved communications is so great, and the economies realized with the new technologies are so pervasive, that telecommunications, while not recession-proof, is a dependable performer even in difficult times.

In the course of the year, BCE made several changes to its management structure. One major change was the appointment of L.R. Wilson to the post of president and chief operating officer, effective November 1. Following his appointment, Mr. Wilson also became a member of the board of directors. A full description of Mr. Wilson's background appears on page eight.

"Open markets produce intense rivalry among international companies."

The executive structure of BCE was also modified to reflect two important thrusts of our telecommunications activities, in Canada and internationally. The international activities of several BCE companies were organized under the direction of a separate subsidiary, BCE Telecom International Inc.

To head these international activities, Henri A. Roy was named group vice-president, international telecom, of BCE and is responsible for BCE Telecom International. Mr. Roy joined BCE in July 1990 after executive experience with multinational corporations in Canada and the United States. He has also served in senior posts in the Quebec provincial government.

BCE's investments in a number of telecommunications companies within Canada are now overseen by Robert Kearney, group vice-president, telecom services, who comes to BCE after a distinguished career at Bell Canada. The telecom services companies include Memotec Data Inc., Tele-Direct (Services) Inc., Northwestel Inc., Télébec Ltée and several other provincially based telecommunications companies.

J. Stuart Spalding, who was executive vice-president, finance, and chief financial officer, and who was instrumental in the 1983 formation of BCE, retired at the end of 1990.

Edmund B. Fitzgerald retired as a director and as chairman of the board of Northern Telecom in April after six years on the board of BCE. We shall miss his immense knowledge of the international telecommunications industry.

His successor as chairman, president and chief executive officer of Northern Telecom is Dr. Paul G. Stern, who was elected to the BCE board in May.

John S. Brant, who has served on the board since 1988, has decided not to stand for re-election. Mr. Brant has been a valued member of the Investment Committee.

Our sincere thanks are extended to all those who have contributed to the evolution of BCE.

J. V. R. Cyr

J.V. Raymond Cyr
Chairman of the Board and
Chief Executive Officer

February 27, 1991

"It is evident that, if BCE companies are to succeed in today's competitive environment, they must remain among the very best in the world. This is an ongoing challenge."

BCE's new president and chief operating officer

L.R. "Red" Wilson, 50, joined BCE on November 1, 1990, as president and chief operating officer of the corporation. He has day-to-day operating responsibility for BCE as a holding company and for many of its domestic and international business interests.

L.R. Wilson

Mr. Wilson brings to the corporation a broad range of varied experience as a senior business executive in Canada and abroad, as well as having been a senior public servant. He knows BCE well, having served previously as a member of its board of directors, from 1985 to 1989.

Just prior to joining BCE, he was vice-chairman of The Bank of Nova Scotia. Mr. Wilson was chairman of the board of Redpath Industries Limited, 1988-89, and had been president and chief executive officer of that company from 1981 to 1988. He also served as managing director for North America of its parent company, Tate & Lyle PLC, from 1986 to 1989.

Mr. Wilson is a former deputy minister of industry and tourism for the province of Ontario. He earlier served as coordinator of industrial R&D policy for the federal Ministry of State for Science and Technology.

In 1962, Mr. Wilson received his Honours B.A. degree from McMaster University in Hamilton, Ontario. He then joined the Trade Commissioner Service of Canada's Department of Trade and Commerce and, in 1963, he was appointed assistant commercial secretary at the Canadian embassy in Vienna.

Returning to university in 1965, Mr. Wilson earned his masters degree in international economics in 1967 at Cornell University, Ithaca, New York. This was followed by a posting as second secretary at the Canadian embassy in Tokyo.

His career in business began in 1969, and it has included numerous senior management positions and executive appointments with international companies in London, Ontario; Vancouver; Boston and Toronto.

In addition to his responsibilities as an officer and director of BCE, Mr. Wilson is a director and chairman of Montreal Trustco and a director of Bell Canada, Varity Corporation, Stelco Inc., Westinghouse Canada Inc., and Tate & Lyle PLC, London, England.

Mr. Wilson is a governor of McMaster University and he is active in several community organizations, as well as in the British-North American Committee, the Canadian-American Committee and the C.D. Howe Institute.

Canada's public telephone network is one of the most advanced and reliable in the world, with telephone service in well over 98 per cent of all households, compared with 93 per cent in the United States and about 80 per cent in Japan.

The BCE telecommunications services companies serve more than two-thirds of the Canadian population, over a territory stretching across the continent from the Atlantic Ocean to the Arctic Ocean.

Bell Canada, owned 100 per cent by BCE, serves nearly seven million subscribers in Ontario and Quebec, as well as much of the Arctic; Northern Telephone Limited (99.9 per cent) and Télébec Ltée (100 per cent) serve parts of Ontario and Quebec; Maritime Telegraph and Telephone Company, Limited (33.8 per cent) and its subsidiary The Island Telephone Company Limited serve Nova Scotia and Prince Edward Island; Bruncor Inc. (31.4 per cent) owns The New Brunswick Telephone Company, Limited; NewTel Enterprises Limited (55.7 per cent) owns Newfoundland Telephone Company Limited; and Northwestel Inc. (100 per cent) serves the Yukon, part of the Northwest Territories and the far north of British Columbia.

The BCE telecommunications companies contributed $955 million to BCE's earnings ($3.14 per share) in 1990, an increase of nine per cent.

The BCE telecommunications companies generally saw a decline in the rate of growth in demand for new telephone services during 1990, due to the economic slowdown. However, improvement of management practices and modernization of the networks are improving efficiency and cutting costs.

Through its 31.5 per cent interest in Memotec Data Inc., BCE also has an interest in Teleglobe Canada Inc., the company which handles all of Canada's overseas telecommunications. Teleglobe is also engaged in the mobile satellite communications business in the United States.

BELL CANADA

Bell Canada enjoyed another year of growth in network access services, long distance messages and net income. At year-end, Bell Canada had 8.8 million network access lines in service, a 3.5 per cent increase over 1989.

Bell Canada contributed $901 million to BCE's consolidated net income ($2.97 per share), compared with $818 million ($2.75 per share) in 1989. The company had operating revenues of $7,655 million, a 5.3 per cent improvement over $7,273 million last year. Local and long distance services provided approximately 87 per cent of Bell Canada's 1990 operating revenues. Local service revenues increased by 5.9 per cent to $2,892 million in 1990. Long distance revenues increased by five per cent to $3,771 million.

Approximately 55,000 employees work at Bell Canada, with another 1,800 in the directory business. Assets at year-end were $16,605 million. Return on equity was 13.2 per cent in 1990, compared with 13 per cent in 1989.

Network improvements

Bell Canada's efforts to modernize the network bore fruit in the more difficult economic climate of 1990 because the new digital technology has proven far more efficient to install, operate and maintain, resulting in cost savings. At the same time, advanced technology permits Bell Canada to offer a greater range of services, creating new opportunities to improve earnings.

In the past year, Bell Canada spent some $2.3 billion on capital expenditures to meet demand, to replace old equipment and to

"The BCE telecommunications companies contributed $955 million to BCE's earnings ($3.14 per share) in 1990, an increase of nine per cent."

modernize the network. Capital expenditures for the five years from 1991 to 1995 will total about $11 billion, of which modernization alone will total almost $2.4 billion.

Some 57 per cent of the entire Bell Canada network is now served by digital switching technology; in the long distance network alone, 99 per cent is digital. By 1995, 90 per cent of all telephone lines will be served by digital technology.

Since 1982, Bell Canada has also been installing fiber optic transmission equipment, which has a far greater capacity and offers better transmission quality than standard copper wire. Fiber optic cable is now installed in the local network, in the access networks for large businesses and in routes between cities, for a total installation of about 240,000 fiber kilometres.

By the end of 1991, all the Canadian telecommunications services companies composing Telecom Canada will have CCS-7 (common channel signalling) capability, extending the intelligent network nationwide. These major changes to fundamental network infrastructure are permitting rapid introduction of new services such as Megalink, 800 PLUS and Call Management Services.

New services

During the year, Bell Canada introduced Call Management Services (CMS) to customers in Ottawa/Hull and Quebec City. The service will be extended to Montreal and Toronto in 1991.

Customers equipped with Northern Telecom's new Maestro telephone are able to see the number of a caller before they pick up the telephone. In the past, the caller has always been assured confidentiality, although the party receiving the call did not have the same advantage. The call display feature changes this relationship. Callers who do not wish to reveal their own number can ask for operator assistance.

Other CMS features are available on any telephone, rotary dial or TouchTone. These permit customers to re-dial the last incoming or outgoing call, to trace the number of an incoming call or to screen calls. The advantages of CMS have gained it quick acceptance, both by residential and business customers.

Over the next few years, Bell Canada's improved technology will permit introduction of an array of cost-effective new services. Services such as Centrex that were available only to larger businesses are now offered to smaller companies. Enhancements to 800 service, made possible through data base call routing and CCS-7 technology, make toll-free calling more flexible, efficient and affordable. Facsimile transmission is becoming cheaper: the new FaxCom service permits cost savings for long distance faxing.

Quality of service

Bell Canada examines closely how other companies are performing in order to judge its own service against recognized benchmarks. In recent years, Bell Canada's productivity has been greater than that of comparable companies in the U.S. By many standards, network modernization by Bell Canada is moving ahead of the U.S.

Quality of service is also closely monitored within Bell Canada, both by statistical measures and by some 20,000 customer interviews monthly. Bell Canada works to ensure that customer satisfaction remains above 90 per cent.

Employee contribution

For many years, Bell Canada has helped its employees to improve their job skills through training, both within the company

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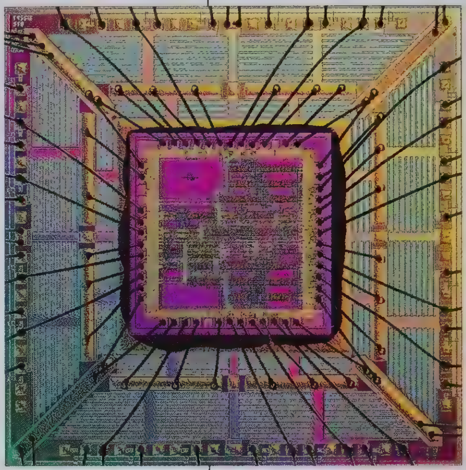
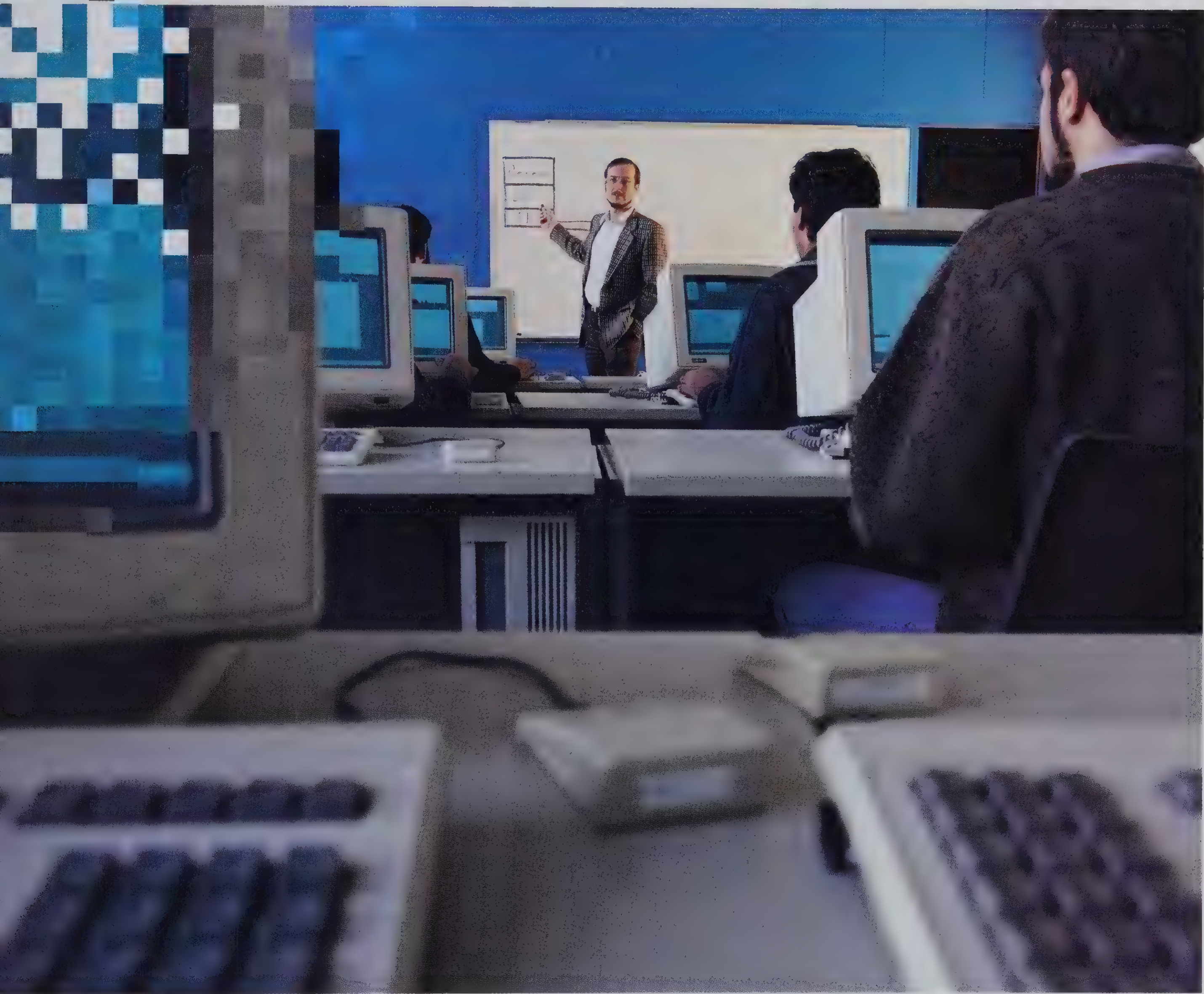


This high-speed de-multiplexer was developed by BNR for Northern Telecom's S/DMS TransportNode.

The centre chip is a gallium arsenide integrated circuit mounted on a larger silicon "subcarrier" chip.

The two chips are connected with wire bonds. The entire package measures only 1.7 centimetres across.



Bell Canada highlights		
($ millions)	**1990**	1989
Operating revenues	**7,655**	7,273
Net income	**966**	875
Total assets	**16,605**	15,699
Gross capital expenditures	**2,343**	2,331
Number of employees	**56,926**	57,052
Network access services (thousands)	**8,798**	8,504
Long distance calls (millions)	**1,702**	1,587

With the goal of becoming a major centre for scientific research, the Université de Montréal called upon Bell Canada to install four Northern Telecom Meridian 1 communications systems to link 60 buildings through a fiber optic network.

Here, Professor Gregor Bochmann of the department of computer science and operational research is teaching students equipped with personal computers linked into the university-wide network.

at outside educational institutions, by paying for courses and by permitting leaves of absence when necessary. Initiative is encouraged through monetary rewards for employees who think of better ways to work. Merit pay awards are given to particularly successful employees. The result is an extremely dependable, highly skilled workforce with pride in its performance.

Long distance rate cuts

On December 1, 1990, Bell Canada implemented another major long distance rate cut, the sixth since 1987. The reduced rates benefit residential and business customers.

Long distance rates and service options are an important issue in relative economic competitiveness between Canada and other countries, notably the United States. Responding to this issue, Bell Canada has announced plans to bring down long distance rates to match U.S. levels by 1996 and to increase service options, assuming the competitive environment in Canada is unchanged. In November, Bell Canada proposed new and enhanced discount services which would permit rate reductions over the five years from 1992 to 1996 of about 60 per cent for high volume users and about 40 per cent for medium users.

Mediatel

Bell Canada has set up a division called Mediatel in order to develop and market competitive electronic services and technologies. An important Mediatel product is ALEX, the videotex technology which allows delivery of text and graphic information over normal telephone lines. Other services, offered in conjunction with Telecom Canada, include iNet 2000, a business information system; Envoy 100, the public electronic messaging service; and TradeRoute, an electronic data interchange service. Together, these services are used by more than 80,000 customers.

Competition

The proposed introduction of competition into long distance telephone services is an important issue for Canadians. In the summer of 1990, two companies filed applications before the Canadian Radio-television

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TELECOMMUNICATIONS SERVICES — BCE INVESTMENTS IN CANADA

- Northwestel Inc.
- Bell Canada
- Northern Telephone Limited
- Télébec Ltée
- The New Brunswick Telephone Company, Limited
- Maritime Telegraph and Telephone Company, Limited
- The Island Telephone Company Limited
- Newfoundland Telephone Company Limited

and Telecommunications Commission (CRTC) for permission to set up competitive public long distance service in Canada. The two companies are Unitel Communications Inc., a telecommunications carrier owned by Canadian Pacific and Rogers Communications, and BCRL, a joint venture composed of BC Rail Telecommunications and Lightel Inc. The central hearings will begin in April 1991, and a decision is not expected until 1992.

At present, the relatively low local service rates enjoyed by Bell Canada customers are subsidized by Bell Canada's profits on the long distance service, at about $2 billion a year.

If competition were to be introduced in long distance service, Bell Canada's revenues would decrease and the subsidy of local services would diminish. Local rates would very likely have to rise substantially. At the same time, it is not clear that long distance rates would decline very much, if at all, as a consequence of competition.

Bell Canada and BCE are in favour of true competition that would create better, less expensive telecommunications service. However, the present proposal for a regulated duopoly is more likely to cause increased expense, with no improvement in quality.

DIRECTORY OPERATIONS

Tele-Direct (Publications) Inc. publishes directories for Bell Canada and for 45 other independent telephone companies in Ontario and Quebec, employing more than 1,800 people at nine locations. In 1990, telephone directory advertising contributed $491 million to total operating revenues of Bell Canada, up 11.6 per cent over 1989.

Recycling telephone books

Bell Canada telephone directories can be recycled through the many community recycling programs in effect in Ontario and Quebec. For several years, Bell Canada and Tele-Direct have worked to reduce the bulk of telephone directories and to make them fully recyclable. Measures taken include using finer paper, water-soluble glue and recycled paper for covers.

"The strength of Northern Telecom is based on its highly efficient, cost-effective manufacturing, its customer-based marketing strategies and its highly focussed research and development."

Telecommunications equipment manufacturing

NORTHERN TELECOM

The year 1990 was one of notable achievements for Northern Telecom, with major advances in technology and market growth, and with the offer to purchase STC PLC, a leading British telecommunications equipment manufacturer.

By any measure, Northern Telecom is a world leader in its field, attaining a goal set in the early 1970s when the company first expanded into the United States market. The goal is now to become the world's dominant telecommunications manufacturer. In 1990, sales outside of North America grew by 29 per cent, in US dollars, and represented six per cent of revenues, up from five per cent in 1989. Sales in Canada accounted for 36 per cent of revenues in 1990, while sales in the United States accounted for 58 per cent.

The strength of Northern Telecom is based on its highly efficient, cost-effective manufacturing, its customer-based marketing strategies and its highly focussed research and development. Northern Telecom products conform to open international standards and can be adapted to conditions and standards virtually anywhere in the world.

Products cover the entire range of telecommunications: the familiar handsets which sit on desks and in homes; public and

private switching systems which route communications within an office or around the world; data packet networks which transmit large volumes of data at high speed over public and private networks; and transmission equipment, including fiber optic equipment, which carries voice, data, video and images.

Northern Telecom employs more than 49,000 people worldwide. It has manufacturing plants in Canada, the United States, the Republic of Ireland, France, Australia, China, Thailand and Malaysia. Research and development facilities are located in Canada, the United States, the United Kingdom and France.

Record earnings

Earnings applicable to common shares were US $436 million in 1990, compared with the 1989 figure of US $354 million. Earnings per share were US $1.80, up 22 per cent from US $1.47 in 1989.

Revenues increased 11 per cent to US $6.8 billion, from US $6.1 billion in 1989. Central office switching, which accounts for 55 per cent of all sales, posted the largest revenue increases for the year, followed by transmission products and by business communications systems and terminals. Only cable and outside plant sales declined slightly. Northern Telecom contributed Cdn. $270 million to BCE's consolidated 1990 net income, equivalent to $0.89 per BCE share, a 20 per cent increase over $0.74 per BCE share in 1989.

Purchase of STC PLC

Northern Telecom made a successful offer to purchase the 73 per cent of STC PLC it did not already own, and final closing of the transaction is to take place in early March. The company had owned approximately 27 per cent of STC since 1987. Financing for the US $2.6 billion purchase was underwritten by a group of Canadian, American and British banks; the maximum loan term is three years. Northern Telecom intends to repay a portion of the debt using proceeds from STC's 1990 sale of STC International Computers Limited (ICL). As Northern Telecom used debt rather than equity to fund the purchase of STC, no new shares were issued.

STC, a company with a 100-year history, is a leader in cable and transmission equipment manufacturing, with particular strength in fiber optic technology, complementing Northern Telecom's superior market position in digital switching. Some 14,000 employees now work for STC, and 1989 sales were £1 billion, after adjusting for the sale of ICL.

STC's biggest customer is British Telecommunications PLC and the bulk of its sales at present are within the United Kingdom. However, as economic integration of Europe proceeds, and as telecommunications operating companies liberalize their procurement policies, opportunities will grow for further expansion in international markets.

Advances in switching technology

Northern Telecom is the world's leading supplier of fully digital telecommunications switching equipment. This includes both large digital central office switches, called DMS switches, designed for public telephone companies; and private branch exchanges, called PBXs, designed for a wide variety of offices, large and small.

With the launching of the Meridian 1 global business communications system, Northern Telecom further consolidated its position as a leading worldwide supplier of digital PBXs. Meridian 1 merges the highly successful Meridian SL-1 and SL-100 into a single modular product line with more than twice the capacity of its nearest competition. These switches provide both voice and data communication and can

"Northern Telecom contributed $270 million to BCE's consolidated 1990 net income, or $0.89 per BCE share, a 20 per cent increase over $0.74 per BCE share in 1989."

The Hungarian town of Sopron is one of 106 towns in the region of Szombathely served by DMS-100 technology purchased from Northern Telecom's licensee, Austria Telecom. The technology was adapted to Hungarian PTT standards.

Northern Telecom highlights		
(US $ millions)	1990	1989
Operating revenues	**6,769**	6,106
Net income	**460**	377
Total assets	**6,842**	6,310
Capital expenditures	**442**	370
Number of employees	**49,039**	47,572

Above the Arctic Circle, the 650 Inuit inhabitants of Gjoa Haven, Northwest Territories, are served by a modern digital telecommunications system operated by Northwestel, a BCE subsidiary.

Agent Tommy Porter is repairing a TouchTone telephone at the community centre.

be adapted to offices requiring from 30 lines to 60,000 lines. The software can be adapted to standards used in more than 70 countries.

Launch of Maestro handset

The Maestro telephone, introduced early in 1990, is the first residential telephone with a built-in display unit that shows subscribers the number of the party calling. The system also gives subscribers the ability to block certain numbers and keep a record of unanswered calls. The service is available in Canada to some customers of Bell Canada, AGT Limited of Alberta and The New Brunswick Telephone Company, as well as to customers of several companies in the United States.

Northern Telecom is working on a further step in caller identification, where the actual name of the caller will appear on the screen. Market tests are under way in South Dakota with U.S. West, a regional U.S. Bell operating company.

Data packet switching

Northern Telecom is also a world leader in data packet switching, with more than 65 DPN-100 networks installed and others on order for customers around the globe. In 1990, Northern Telecom won a five-year, $50 million contract to supply over 300 DPN-100 packet switching nodes to the Société Internationale de Télécommunications Aéronautiques (SITA), the air transport industry's global telecommunications organization.

A major advance in packet switching technology was achieved in 1990 when Northern Telecom announced a series of products that permit swift data transmission over the public network.

This new technology is called frame relay. It can link office computer systems and local area networks (LANs) to each other through public telephone switching systems, to create wide area networks (WANs) that serve many locations within an organization or company. The new service is considered a breakthrough because it provides to businesses, schools and professional organizations a wide range of capabilities previously available only to large corporations with expensive private communications networks.

Norstar

The very successful Norstar digital communications system for small and medium-sized businesses is manufactured in Calgary, Alberta. Some 135,000 systems, comprised of more than one million handsets, have already been sold in 40 countries, and Norstar is offered by every major telephone company in North America. In 1990, several refinements were introduced to increase speed and capacity.

Cellular technology

Northern Telecom is also a leader in the development of technology for cellular telecommunications systems. At present, most cellular systems in the world operate on analog radio technology. However, many companies will soon begin installing digital technology because of its ability to handle the increasing numbers of subscribers and added services, such as facsimile and computer hook-ups.

Digital Ready cellular mobile switches, introduced in 1990, will accommodate future introduction of digital radio service, while still serving existing analog systems. The DMS-MTX cellular switch is the most powerful in the world. It even increases the capacity of analog radio systems and can handle the boom in subscriptions expected when cellular systems begin converting to digital.

FiberWorld

In late 1989, Northern Telecom became the first manufacturer to announce a family of fiber optic-based switching and transmission products. FiberWorld products are based on the synchronous optical network (SONET). SONET is an international standard that ensures an open interface between products of different manufacturers, thereby permitting creation of intelligent high-capacity fiber optic

"Some 135,000 Norstar systems, comprised of more than one million handsets, have already been sold in 40 countries, and Norstar is offered by every major telephone company in North America."

networks. Shipments of some FiberWorld products began in 1990, and a full product line is expected to come to market in 1992.

The first commercially available FiberWorld product is the S/DMS TransportNode. It carries voice, data and video signals over fiber optic cable and went into service in Nepean, Ontario, in early 1990. Several S/DMS TransportNodes are being tested by leading North American operating companies, including Bell Canada.

Elimination of CFC solvents

During 1991, Northern Telecom will eliminate completely its use of chlorofluorocarbons, which have been linked to the depletion of the ozone layer protecting the earth. The CFC-113 solvents are widely used by electronics manufacturers to clean soldering residue from circuitboards. At the start of 1991, company use worldwide had been cut by 80 per cent.

□ Research and development

BCE is the leader in Canadian research and development, with an investment of $1 billion in 1990. This investment in the creation and development of advanced telecommunications networks, systems, products and services is a major reason for the competitive strength of BCE companies.

Northern Telecom spent US $774 million on R&D in 1990, compared with US $730 million in 1989. Expressed as a percentage of revenues, the amount spent on R&D declined to 11.4 per cent in 1990 from 12.0 per cent in 1989. Northern Telecom intends to spend more in absolute dollars over the next decade, while ensuring that R&D gives the best possible return on investment.

At the same time, Bell Canada invested $115 million in R&D during 1990 and plans to spend some $2 billion over the next decade, double the amount for the previous decade.

BELL-NORTHERN RESEARCH

Most of BCE's R&D investment, $612 million in 1990, is performed by Bell-Northern Research (BNR), which is owned 70 per cent by Northern Telecom and 30 per cent by Bell Canada. BNR employs some 6,700 people at laboratories in Canada, the United States and the United Kingdom. BNR is headquartered at Nepean, Ontario, adjacent to Ottawa. BNR is Canada's largest R&D institution, public or private.

With the purchase early in 1991 of STC PLC, a British manufacturer of transmission equipment, Northern Telecom also acquired a highly regarded R&D organization. STC is well advanced in fiber optic technology and employs some 900 people in R&D.

Virtually all of BCE's R&D investment is in the development and testing of new products for the global telecommunications market and in developing technology for these products. Because products developed by BNR will be used in many different and challenging environments — from earthquake zones to Arctic winters — the stress is on robustness, quality and reliability.

The next decade will see extraordinary changes in telecommunications, as digital and fiber optic-based systems vastly increase the capacity, speed and reliability of telecommunications networks. BNR has identified three areas of research concentration: FiberWorld, the advanced intelligent network and personal communications.

"BCE is the leader in Canadian research and development, with an investment of $1 billion in 1990. This is a major reason for the competitive strength of BCE companies."

FiberWorld

The announcement of FiberWorld in late 1989 was a major step in the evolution of telecommunications technology. FiberWorld products increase transmission speed some 3,000 times.

Within a few years, fiber optic networks will be capable of providing all telecommunications to home or office: voice, data, images and video, including cable television services. In effect, the advent of fiber optics means that communications technologies are converging. This has important implications for manufacturers, telephone companies, customers and government regulators.

Northern Telecom's new FiberWorld product line will have absorbed some $1 billion in R&D by 1992. The potential of fiber optic-based technology to transform telecommunications has created intense competition among all major telecommunications manufacturers to bring products to market.

Advanced intelligent networks

Another strategic focus in which BNR is the world leader is advanced intelligent networks, which will allow telecommunications companies to create, design, deploy and manage the many new services made economical by fiber optic networks.

BNR's technology is supporting some of the largest and most sophisticated networks in the world. Intelligent network platforms, for example, have been developed by BNR for NYNEX in New York City, for Telecom Canada and for Telecom Australia. The processing capacity of this intelligent network technology is so high that networks are now using only a fraction of their potential, and totally new services can be added as required in the future.

Personal communications

The third priority at BNR is the development of technology for personal communications systems. The goal is to provide individuals, wherever they may be in the world, with customized advanced telecommunications services by means of ultra-light, pocket-sized portable telephones.

BNR and Northern Telecom have made proposals to the Department of Communications in Canada and to the Federal Communications Commission in the United States for a framework for the evolution of personal communications systems.

The personal communications system that is now widely installed is cellular mobile technology, where BNR is a leader. BNR is working on digital communications networks and switching systems that will increase capacity by three to six times, as well as improving quality and reliability.

Personal communications also has a role at the office, so people need not remain "stuck" to their telephone or computer. Building on the technology of the very popular Norstar office communications system, BNR is developing a range of cordless products that link telephone and computer in an office setting.

New laboratories

Bell-Northern is increasing its laboratory space at world headquarters in Nepean. In 1990, BNR dedicated the new $30 million Lab IV, one of the most advanced optoelectronics laboratories in the world. Work was also started on the $100 million Lab V, which will bring together 4,400 BNR staff in the Ottawa area.

BNR is also undertaking a major expansion of its laboratory complex at BNR Park, Maidenhead, northwest of London in the

"BNR has identified three areas of research concentration: FiberWorld, the advanced intelligent network and personal communications."

Videotron Corporation Limited, in which BCE has a 30 per cent interest, is setting up a cable television distribution system in three cities in southern England. This installer has brought cable service to a home in central London. Some 120,000 homes in the U.K. now have access to service from Videotron.

United Kingdom. The project will permit expansion from the present 250 research and development professionals to as many as 450.

BNR is also expanding its Richardson, Texas, facilities with a new 400,000 square foot laboratory, part of a $160 million project undertaken with Northern Telecom. BNR currently employs more than 700 people in the Richardson area.

Support for education

Scientific education is a major concern for BNR and for all BCE companies, because quality research demands highly educated scientists and engineers. In 1990, through its University Interaction Program, BNR provided more than $2.8 million in funding to researchers at 20 Canadian institutions of higher education.

STC PLC, acquired by Northern Telecom early in 1991, is a British telecommunications equipment manufacturer and a world leader in fiber optic technology.

Fiber optic submarine cable manufactured at an STC plant in Southampton is being packed for storage in a drum which holds 45 kilometres of cable. STC submarine cable lies on the ocean floor, linking continents around the globe.

Since January 1, 1991, most of BCE's various international operating and investment interests have been positioned under the administrative control of BCE Telecom International Inc.

Companies held by BCE Telecom include BCE Ventures Corporation and several directory and printing operations in the United States, the Middle East and Australasia. BCE Telecom also oversees BCE's direct investment in Videotron Corporation Limited in the United Kingdom, as well as the operations of Bell Canada International.

BELL CANADA INTERNATIONAL

Bell Canada International (BCI) is BCE's international telecommunications consulting arm. Working under contracts signed with governments or with companies outside of Canada, BCI provides technically skilled personnel and management staff to improve telecommunications systems. BCI also provides expertise to support BCE's international telecom investments and Northern Telecom's sales of new technology abroad.

BCI's strength in international consulting is due to the scope of telecommunications support provided by BCE companies. BCE is the only corporation in the telecommunications industry that has classical vertical integration, with strength in services, manufacturing, research and development, mobile communications and consulting.

Many countries now recognize that an adequate telecommunications infrastructure is a key factor in economic development. Markets for international consulting are opening up, in both the industrialized and the developing worlds. In 1990, BCI worked on contracts in 24 countries, including the United States, Japan, Australia, Morocco, Mexico, Hong Kong and New Zealand.

Malaysia

BCI and Syarikat Telekom Malaysia concluded a $9 million sale of their Customer Automated Services System (CASS) to Computasia Limited, a wholly owned subsidiary of Hong Kong Telecom. The sale was a major marketing breakthrough for the CASS product, which was developed jointly by BCI and Telekom Malaysia.

CASS is a computerized information system which provides comprehensive customer service for public telecommunications utilities. BCI and Telekom Malaysia have formed a joint venture to market CASS internationally in an increasingly competitive environment.

Kingdom of Morocco

BCI continues its work in the Kingdom of Morocco, with the goal of expanding and modernizing the national telecommunications network. The contract, worth $300 million, provides for installing 300,000 lines of Northern Telecom digital switching equipment and for training Moroccan personnel. One hundred BCI employees work in Morocco.

Mexico

In Mexico, BCI is providing and installing a cellular billing system (LINK) developed by Bell Cellular, a subsidiary of BCE Mobile, to serve cellular operations in Mexico City; equipment for the project is supplied by Northern Telecom. BCI is also providing software modifications to adapt the LINK system to the cellular operations of the Mexican company IUSA S.A. de C.V. The value of the BCI contract is $4.6 million.

BCI Incorporated

BCI Incorporated serves the United States market from offices in Reston, Virginia; Richardson, Texas; Raleigh, North Carolina; San Francisco and two recently opened offices in New York and Chicago.

"In 1990, BCI worked on contracts in 24 countries, including the United States, Japan, Australia, Morocco, Mexico, Hong Kong and New Zealand."

Bell Canada International is part of a joint venture setting up CLEAR Communications, an alternative public telephone network in New Zealand.

This worker in Auckland is installing part of the fiber optic cable network. Northern Telecom is providing switching technology.

BCI Inc. sells operational and engineering support for data and voice transmission and telephone switching. Clients include U.S. telephone companies and other large corporations. In 1990, BCI Inc. launched Protocol Telecommunications Services Inc. to install and maintain telecommunications switches for both offices and public telephone companies.

TELECOM INVESTMENTS

New Zealand

BCE is participating in a joint venture with a consortium of companies to establish a telecommunications network in New Zealand in competition with Telecom New Zealand, which was recently privatized. The new company, CLEAR Communications Limited, launched private line service for voice and data in early 1991. This will be followed in the second quarter by competitive long distance services for residences and businesses.

Thirty-seven BCE employees are providing sales, marketing, product management, engineering, systems and technical expertise. Other participants in the consortium are the Todd Corporation, Television New Zealand, MCI Communications Corporation of the United States and New Zealand Railways. CLEAR is setting up an entirely digital network based on microwave and fiber optic cable. Northern Telecom is supplying digital switching equipment.

Videotron Corporation Limited

BCE has an interest in cable television distribution in the United Kingdom through its 30 per cent equity participation in Videotron Corporation Limited, a British company with several franchises in metropolitan London, Southampton and Winchester. Videotron Corporation is owned 61 per cent by Le Groupe Vidéotron Ltée of Montreal, while European investors hold the balance.

The areas served by Videotron Corporation represent a potential of more than 1.2 million homes, of which 120,000 now have access to the cable network.

BCE's participation in cable television reflects the widening scope of telecommunications. The cable television franchises awarded in the U.K. make provision for a variety of telecommunications services, in addition to cable television. BCE will supply important telecommunications technology and expertise to the venture.

Mobile investments

Mobile telecommunications technology is seen as an efficient alternative in many countries not yet able to build modern telecommunications infrastructures.

Mobile communications opportunities are being pursued worldwide, with $4.6 million invested outside of North America. Successful bids included participation in two cellular licenses in regions adjacent to Mexico City and participation in setting up a paging company in Tunisia. A U.S. subsidiary, Easyphone Inc., has applied for personal communications licenses in two major U.S. cities.

Directory operations

Two BCE subsidiaries in the United States, National Telephone Directory Corporation and Penn-Del Directory Corporation, have exclusive long-term directory publishing contracts with New Jersey Bell, Bell of Pennsylvania and the Diamond State Telephone Company of Delaware. Both directory companies have established strong markets for advertising and had profitable years despite the effects of the economic slowdown.

Another BCE subsidiary, Tele-Direct Services Middle East Limited, has interests in telephone directory companies in the Middle East, including the United Arab Emirates. Y.P. Publishing Australia Pty. Ltd., through an associated company, sells Yellow Pages advertising in Australia, Fiji and Papua New Guinea.

"Mobile communications opportunities are being pursued worldwide. Successful bids included participation in two cellular licenses in regions adjacent to Mexico City."

Printing operations

NADCO Directory Management Corp., a printing company with plants in Lowell, Massachusetts, and Hazleton, Pennsylvania, prints telephone directories for several companies in the northeastern U.S.

The Case-Hoyt Corporation of Rochester, New York, is a very high quality commercial printer producing magazines, annual reports, catalogues and other materials requiring fine colour work.

BABN TECHNOLOGIES Corporation is an established, highly regarded printer of lottery tickets in Canada, the United States and, through a joint venture, Australia. Clients include most Canadian lottery corporations.

BCE Ventures Corporation

The use of venture capital is a way of participating in emerging companies and technologies. BCE Ventures Corporation is owned 75 per cent by BCE and 25 per cent by Northern Telecom. Since its inception in June 1988, the company has invested \$10.4 million in six companies in Canada. Another \$11.6 million was invested in six companies in the United States, through a wholly owned subsidiary, BCE Venture Capital Inc.

"Bell Cellular Inc. maintains one of the largest cellular coverage areas in the world, stretching from Windsor, Ontario, to the New Brunswick border."

□ Mobile communications

Mobile communications is one of the fastest growing areas of telecommunications. As the technology improves and the market expands, equipment costs for subscribers have dropped, while the variety of products has expanded to include facsimile, data transmission and cordless telephony, among other innovations.

BCE Mobile Communications Inc., owned 69.7 per cent by BCE, is a leader in all forms of mobile communications through three wholly owned subsidiaries: Bell Cellular Inc., National Pagette Ltd. and Bell Radiocommunications Inc. (formerly National Mobile Radio Communications Inc.).

In 1990, BCE Mobile had revenues of \$329 million, compared with \$242 million in 1989, a 36 per cent increase. Net loss for the year was \$20 million, compared with \$7 million in 1989. The higher net loss was due to increased depreciation and financing costs associated with the expansion of Bell Cellular's network.

BCE Mobile was in a favourable position entering the recession compared with other cellular companies, because it has not had to rely solely on debt financing but has funded capital expenditures through a mixture of equity and debt, and is generating increasing cash flow from revenues.

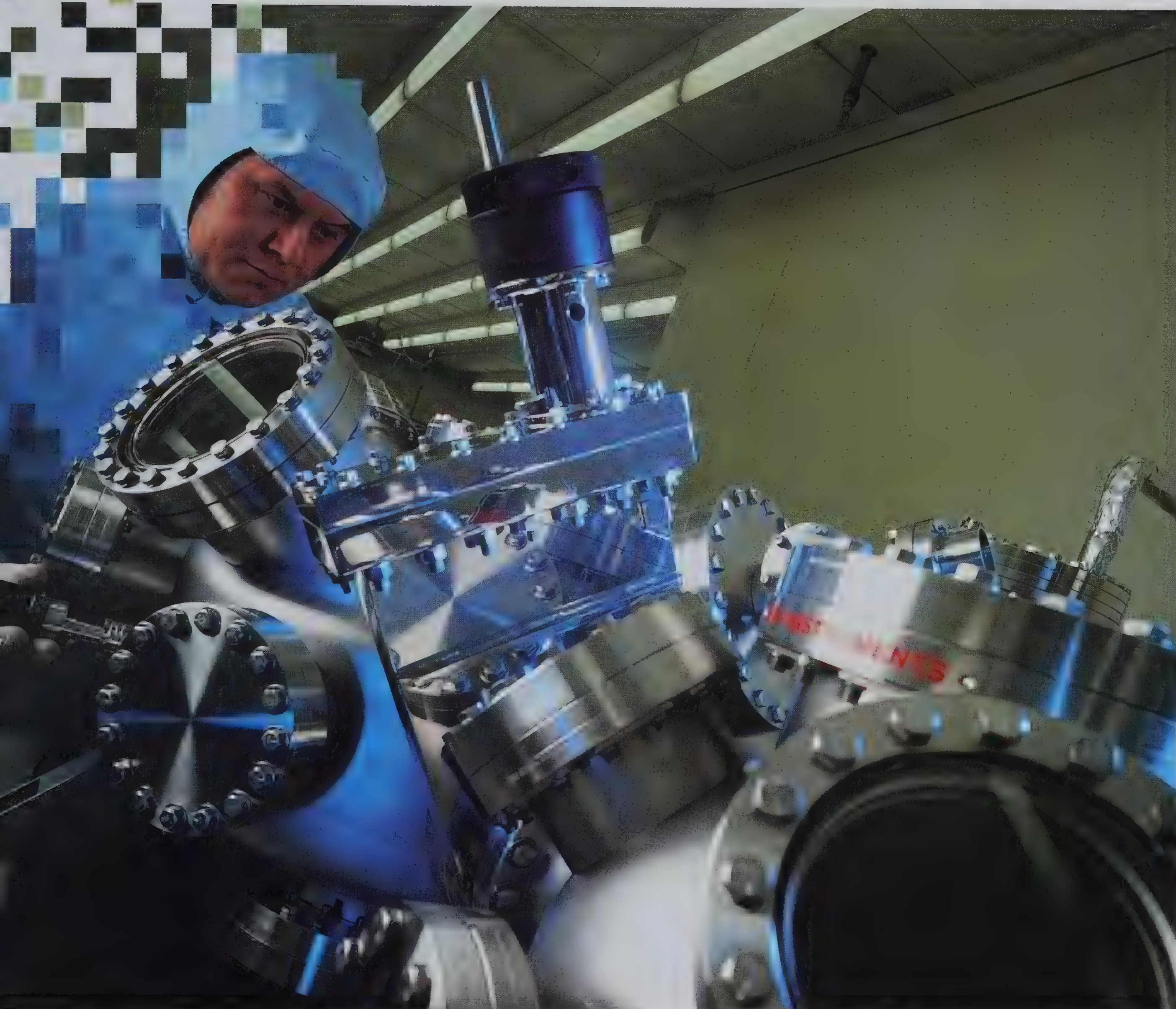
BELL CELLULAR

With over 400 cell sites in its operating territory, Bell Cellular Inc. maintains one of the largest cellular coverage areas in the world: 207,000 square kilometres, stretching from Windsor, Ontario, to the New Brunswick border. It also maintains a 6,800 kilometre microwave network, one of the longest anywhere. In total, the Bell Cellular network covers more than 85 per cent of the population of Ontario and Quebec, and on any given day handles between 1.5 million and two million calls. Through the national CellNet Canada co-operative of cellular companies, subscribers can use their telephones virtually coast-to-coast along the TransCanada Highway.

The growth of Bell Cellular since its founding in 1985 has been strong. At year-end 1990, subscribers numbered 209,000, an

Bell Canada International, Northern Telecom and BCE Ventures are involved in building cellular telephone networks in Mexico, where cellular phones are now a common sight.

This photo of Margarita Ibarra Cerillo, an employee of the cellular company IUSACELL, was taken in front of Mexico City's National Cathedral.



BNR research scientist Dr. Steve Dzioba is depositing precise layers of chemical compounds — some as thin as 12 layers of atoms — on semiconductor lasers developed for fiber optic telecommunications equipment.

BNR designed two of these high vacuum "electron cyclotron resonance" systems for its new $30 million optoelectronics laboratory in Nepean, Ontario.

increase of 48 per cent over year-end 1989 and an increase of 238 per cent from two years ago. Despite the weakening Canadian economy in the last half of 1990, new subscribers have continued to sign up at a fast pace.

Bell Cellular contributed $236 million to BCE Mobile's consolidated revenues in 1990, a 54 per cent increase over $153 million in 1989.

Cordless telephones

BCE Mobile has also entered the field of digital cordless telephones, marketed under the name Bellpoint. The telephones are smaller, lighter and less expensive than cellular telephones. Their use, however, is limited to the vicinity of transmission points located in public places or in conjunction with home or office telephones. Trials are under way in 1991, and BCE Mobile hopes to receive a commercial license from the federal Department of Communications to begin service in 1992.

NATIONAL PAGETTE

National Pagette Ltd. operates paging and telephone answering systems across Canada. National Pagette introduced services

designed to offer to individuals and smaller businesses the sort of message management generally available only to large companies.

National Pagette's results were affected by intense price competition in the paging industry, but both revenues and the number of pagers increased over 1989. The company attracted new customers and acquired assets of other companies. National Pagette contributed $61 million to BCE Mobile's revenues in 1990, compared with $59 million a year ago.

BELL RADIOCOMMUNICATIONS

Bell Radiocommunications Inc. provides private and shared radio communications services, such as those used by police forces and taxi fleets, in Quebec and Ontario. The company specializes in the design of voice and data mobile systems, including the integration of sophisticated hardware and communications software. Bell Radio contributed $32 million to BCE Mobile's consolidated revenues in 1990.

"The logic of linking a telecommunications company and a trust company has a strong basis in modern technology."

Financial services

As a management holding company, BCE has always been active in financial and capital markets. The need to finance growth and capital expenditures has given rise to an important treasury function within BCE, involving the placing of debt and equity issues in Canadian and international markets.

Bimcor, BCE's pension fund management subsidiary, manages funds exceeding $7.3 billion, which include pension assets of BCE, Bell Canada, Northern Telecom, Newfoundland Telephone and certain other BCE subsidiaries.

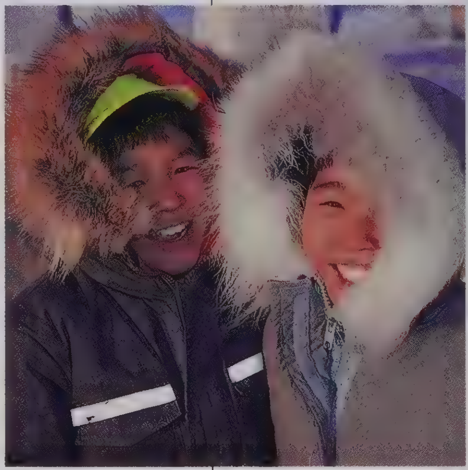
MONTREAL TRUSTCO INC.

The May 1989 acquisition of Montreal Trustco Inc., one of Canada's oldest trust companies, placed BCE squarely in the financial services business. Montreal Trust offers financial and trust services to individuals, businesses and other organizations through its Canada-wide network of branches and offices. Total assets under administration at year-end 1990 were $43.3 billion, up 12 per cent over $38.8 billion at the end of 1989.

The logic of linking a telecommunications company and a trust company has a strong basis in modern technology. In effect, computers linked by telecommunications systems are now the backbone of the financial services business. Their uses include automated banking machines, funds transfers, stock transfer services, shareholder services, customer services and records management.

In 1990, Montreal Trust continued to concentrate on business sectors where it has or can achieve a strong competitive position. The goal is to continue to build the company as a major financial services institution doing business across Canada.

Net income in 1990 was $65 million, compared with $71 million the previous year. Revenues were $1.6 billion, compared with $1.4 billion in 1989. Montreal Trust's return on common equity in 1990 was 13 per cent, compared with 16 per cent a year earlier, and the return on assets was 0.55 per cent, compared with 0.67 per cent in 1989.



Like Canadians everywhere, these Inuit children are linked to the world through the most modern telecommunications facilities.

In 1990, Montreal Trust contributed $44 million ($0.14 per share) to BCE's consolidated earnings.

The decline in net income was due to a $6 million one-time charge taken as Montreal Trust withdrew from the real estate brokerage business outside Quebec, and to a $12 million

increase in the general loan loss provisions, taken in light of the weakening economic climate.

Montreal Trust's business is divided broadly into the following areas:

- Personal services – covering the gamut of retail financial services such as savings and chequing accounts, personal loans, registered retirement savings plans, mutual funds, residential mortgages and personal trusts
- Financial operations – includes commercial, corporate and government lending and treasury operations
- Corporate services – dealing with stock and bond transfers, employee benefit services, including pension management, and corporate trust services
- Real estate brokerage – based on a network of real estate offices in the greater Montreal area
- Investment management services – offered through two affiliates, Montrusco Associates Inc. in Montreal and M.T. Associates Investment Counsel Inc. in Toronto
- A subsidiary, RoyNat, is Canada's largest private term lender, specializing in small and medium-sized businesses.

Shareholders of the 1,700 companies, including BCE Inc., for which Montreal Trust serves as transfer agent can telephone or drop by for personal service at offices across Canada.

This reception area is located in the company's Montreal head office. Montreal Trust holds the largest share of the Canadian market for stock and bond transfer services.

Personal services

The personal services division provides retail financial services to an increasingly sophisticated public. Total retail deposits and investment certificates increased 12.3 per cent to $7.4 billion in 1990.

The continuing weakness in the Canadian real estate market affected residential mortgages, which account for about 34 per cent of Montreal Trust's corporate assets. The number of mortgages in arrears at year-end was higher and additional provisions were required. The portfolio stood at $4.3 billion at year-end 1990, compared with $3.9 billion a year earlier. New mortgage production was $1.0 billion, compared with $1.25 billion in 1989.

Financial services

Corporate and commercial lending accounts for about 42 per cent of assets. Montreal Trust is one of Canada's major income property lenders, providing financing for apartment buildings, commercial buildings, industrial buildings and condominium projects. In 1990, the portfolio grew 24 per cent to $2.7 billion.

During the year, Montreal Trust acquired Commercial Financial Corporation Limited (CFCL), a holding company whose principal subsidiaries are Wellington Trust Company and Candev Financial Services Ltd. CFCL had corporate assets of some $450 million. Wellington's business income property lending gives Montreal Trust a portfolio in a new niche market, that of smaller loans.

Corporate and government lending, accounting for six per cent of Montreal Trust's assets, had another successful year, with continued growth in new lending commitments. This highly competitive area is one where Montreal Trust expects to increase its presence.

Corporate services

Montreal Trust holds the largest share of the Canadian market for stock and bond transfer services. In 1990, Montreal Trust became transfer agent for another 166 companies, handling at year-end more than four million shareholder accounts for over 1,700 companies.

In May 1990, Montreal Trust became the transfer agent and registrar for BCE's 280,000 registered common and preferred shareholders in Canada. The change, which had been organized for several months in advance, proceeded smoothly.

Real estate brokerage

The real estate brokerage business continued the decline noted in 1989. Commissions earned were $50 million, down 26 per cent from 1989, reflecting the poor resale housing market and a reduction in operations. In order to concentrate its efforts where it has a strong market share, Montreal Trust sold its residential real estate brokerage operations in Ontario, Manitoba, British Columbia and the Atlantic provinces, retaining only the offices in the greater Montreal area.

Investment management

Montrusco Associates and M.T. Associates together manage $4.8 billion for clients, ranking eleventh among pension fund managers in Canada. Revenues from this division increased by 8.3 per cent, and assets managed increased by six per cent.

RoyNat

RoyNat, a subsidiary with 26 branches across Canada, is Canada's leading medium-term lender, specializing in small and medium-sized businesses. It had assets of $1.9 billion at year-end.

"In May 1990, Montreal Trust became the transfer agent and registrar for BCE's 280,000 registered common and preferred shareholders in Canada."

Net income

BCE's consolidated income from continuing operations was $1,147 million in 1990, $1,201 million in 1989 and $853 million in 1988.

After deducting preferred dividends of $85 million in 1990, $37 million and $5 million in 1989 and 1988, respectively, net income applicable to common shares from continuing operations was $1,062 million ($3.50 per common share) in 1990, compared with $1,164 million ($3.91 per share) in 1989 and $848 million ($2.97 per share) in 1988.

The increase in preferred dividends, particularly in 1990, is due to the additional preferred shares issued by BCE in 1989 and 1990.

The per-share earnings figures are based on 303.8 million average common shares outstanding in 1990, an increase of about two per cent over 297.5 million in 1989. Average common shares outstanding in 1988 totalled 285.4 million.

After deducting the loss from discontinued real estate operations in 1989, BCE's net income applicable to common shares for that year was reduced to $724 million, or $2.43 per share.

In addition to the loss from discontinued real estate operations of $440 million reported in 1989, there were unusual items in each of the three years which affected BCE's results. Excluding those items, income from continuing operations, applicable to common shares, would have been $1,142 million in 1990, $1,073 million in 1989 and $970 million in 1988.

The most significant of the above-mentioned items are summarized in the following table:

($ millions)	1990	1989	1988
Gains recorded, net of tax, on disposition of shares of TransCanada PipeLines Limited (TCPL), and on reduction of ownership interest in subsidiary and associated companies, principally BCE Mobile	164	91	94
Provision, net of tax, related to investments in Kinburn Corporation and common shares of SHL Systemhouse Inc. (note 8)*	(244)	—	—
Provision, net of tax, related principally to printing operations	—	—	(69)
BCE's share, net of tax and minority interest, of the $242 million restructuring cost of Northern Telecom (note 2)*	—	—	(86)
BCE's share, net of tax, of a loss incurred by TCPL on the sale of all its U.S. oil and gas properties, and non-recurring items	—	—	(61)
Net impact of all the above items	(80)	91	(122)

* The notes refer to the Notes to consolidated financial statements; the figures in ( ) denote negative impacts on BCE's results.

Contributions grow from telecommunications businesses

In 1990, BCE's telecommunications services companies and its telecommunications equipment manufacturing arm delivered substantial increases in their contributions to BCE's net income.

BCE's largest subsidiary, Bell Canada, increased its contribution to BCE's net income by 10.1 per cent in 1990, rising from $818 million in 1989 to $901 million in 1990. This was a significant advance over 1988, when Bell Canada contributed $746 million.

The contribution from Northern Telecom was up 22.7 per cent, from $220 million in 1989 to $270 million in 1990. In 1988, Northern Telecom contributed $106 million, after establishing a provision to cover the cost of a restructuring program.

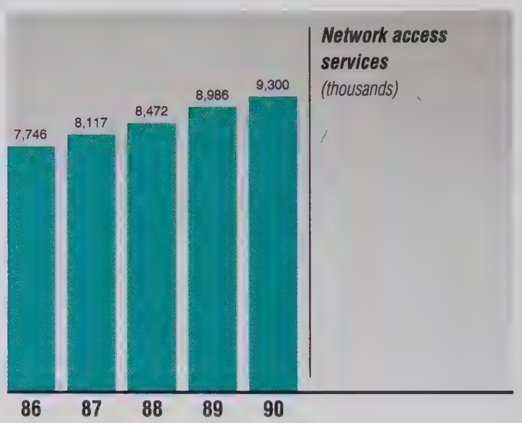
The 1990 contributions from other companies gained or kept pace with 1989. TCPL contributed $66 million, the same amount as in 1989. However the 1990 contribution reflects 24.4 per cent ownership interest from October 1, and 49 per cent for earlier periods.

Montreal Trustco Inc., which BCE acquired in the second quarter of 1989, contributed $44 million in 1990, compared with $37 million for the eight months after its acquisition in 1989.

Telecommunications services revenues rise

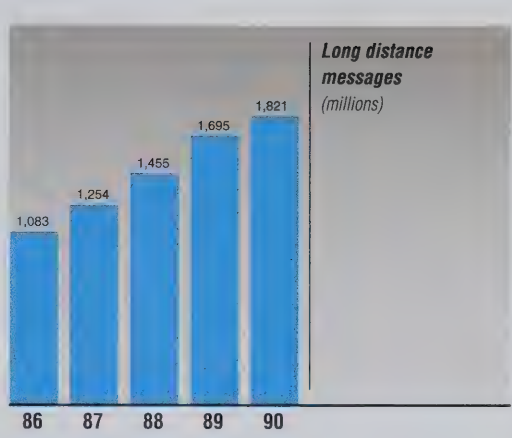
Operating revenues of Bell Canada and other BCE telecommunications operating subsidiaries increased by $457 million (5.7 per cent) to $8,468 million in 1990. In 1989, operating revenues had risen $919 million (13.0 per cent) over 1988, when they totalled $7,092 million.

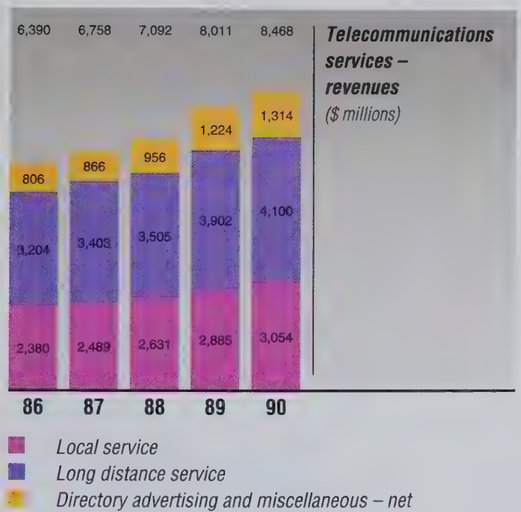
The increase in operating revenues in 1990 occurred in part because local service revenues rose by 5.9 per cent, or $169 million. This was fed mainly by the growth in network access services and the sale of more service options and features. The volume of network access services grew 3.5 per cent in 1990 and 6.1 per cent in 1989. The growth in 1990 came in both the business and residential markets.



By comparison, the 1989 growth rate of local service revenues was nearly twice as high – $254 million, or 9.7 per cent – but that increase was aided by two non-recurring factors. The 1989 increase had been helped, first, by the acquisition of two telecommunications companies, Northwestel and Terra Nova Telecommunications, in the fourth quarter of 1988; and, second, by the recovery of delayed installations because of a strike in 1988 at Bell Canada.

The telecommunications services companies' major source of income, long distance service revenues, continued to grow in 1990, but at a slower pace than in 1989. Fed by an increase in the number of calls, long distance service revenues went up by $198 million (5.1 per cent) in 1990. By comparison, they increased by $397 million (11.3 per cent) in 1989. The increase in 1989 revenues was due primarily to the economy's strength at that time and to the high rate of growth in the number of calls.





The softening economy and the rate reductions implemented by Bell Canada in the last quarters of 1989 and 1990 slowed the growth rate of long distance service revenues in 1990, even though the impact of the rate reductions was partially offset by additional demand. Long distance calls increased by 7.4 per cent in 1990 over 1989, but in 1989 they had grown by 16.5 per cent over 1988. The growth in long distance revenues could slow further in 1991, taking into account the present economic context and the reduction in Bell Canada's long distance rates effective December 1, 1990, which is expected to reduce Bell Canada's revenues by approximately $75 million in 1991.

Operating expenses of the telecommunications companies increased at a more moderate pace in 1990 and rose by only $308 million (5.2 per cent), compared with $722 million (13.7 per cent) in 1989. The 5.2 per cent rate of increase in 1990 was lower than the increase in operating revenues, which was 5.7 per cent in 1990 over 1989. This positive development came about, in part, because Bell Canada and its employees put extra emphasis on controlling costs.

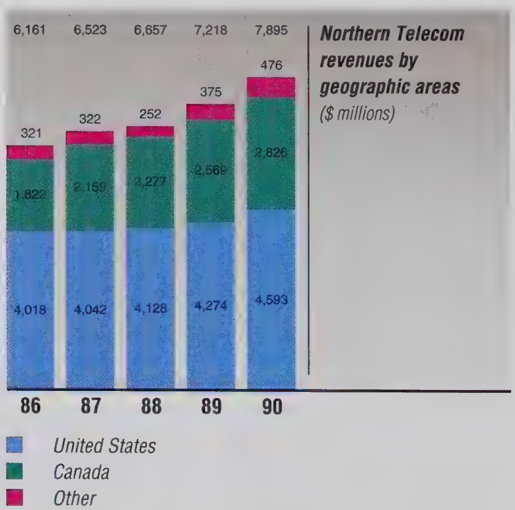
Increases in depreciation expense and in salaries and wages contributed to the 1990 increase in operating expenses. The cost increase in 1989 had been accelerated to some extent by the 1988 fourth-quarter acquisition of two telecommunications operating companies and the effect of the 1988 strike at Bell Canada, which resulted in lower than anticipated expenses in 1988.

Net revenues from telecommunications services in 1990 rose to $2,184 million from $2,035 million in 1989. In 1988, net revenues had stood at $1,838 million.

Northern Telecom revenues also rise

Northern Telecom 1990 revenues climbed 9.6 per cent, growing from $7,161 million in 1989 to $7,851 million. Revenues for 1988 totalled $6,598 million. **(Although Northern Telecom reports its results in U.S. dollars, they are presented here in Canadian dollars, except where otherwise noted.)** These increases resulted primarily from volume growth, which more than offset price reductions in most product lines and markets.

Fed primarily by higher sales in 1989 and 1990 to telecommunications operating companies and to inter-exchange carriers, Northern Telecom's United States revenues increased seven per cent, totalling $4.59 billion in 1990, compared with $4.27 billion in the preceding year. In 1989 they rose four per cent, from $4.13 billion in 1988.



Northern Telecom revenues by geographic areas ($ millions)

Canadian revenues in 1990 climbed ten per cent to $2.83 billion from $2.57 billion. In 1989 they had grown at a slightly better pace, up 13 per cent from $2.28 billion in 1988. Northern Telecom's revenue growth in Canada for 1990 and 1989 came mainly from increased sales to telecommunications operating companies. In addition, the revenues from two new subsidiaries were included in Northern Telecom's 1990 consolidated revenues.

Higher demand for Northern Telecom's products in Australia, Europe and Asia drove up international revenues in 1990 by 27 per cent, as revenues from international operations climbed to $476 million. In 1989, international revenues had grown 49 per cent, from $252 million in 1988 to $375 million. Northern Telecom expects its revenues from international operations to increase substantially in 1991 on consolidation of STC PLC (see note 4-c).

All product lines posted generally higher revenues in 1990, except for cable and outside plant. For 1989, revenues increased in all product lines.

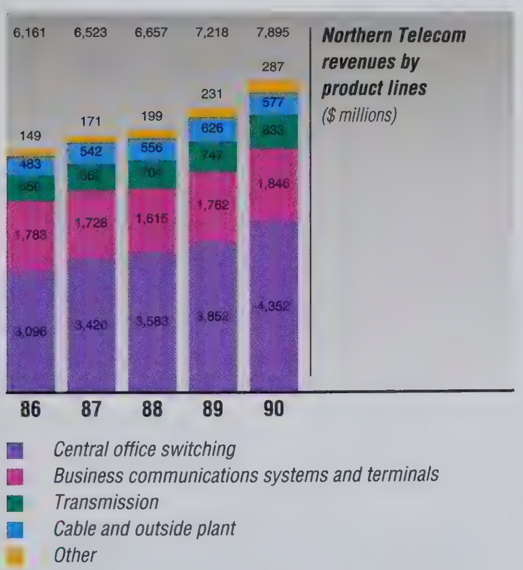
Central office switching revenues totalled $4.35 billion, up 13 per cent from the 1989 revenues of $3.85 billion. They had risen eight per cent from the $3.58 billion the company had posted in 1988. These increases were the result of higher demand for Northern Telecom's products in the United States, Canada and international markets.

Business communications systems and terminals revenues also showed gains in 1990, rising by five per cent. Revenues from this product line totalled $1.85 billion for the year, compared with $1.76 billion in 1989. That year, revenues were nine per cent higher than 1988, when $1.62 billion was taken in.

Despite strong competition, Northern Telecom made its largest 1990 gains in the United States and international markets. Revenues in Canada were essentially flat.

Transmission revenues totalled $833 million in 1990, a growth of 11.5 per cent from the $747 million in 1989, which had increased 6.1 per cent from $704 million in 1988. Growth in both years was a result of stronger demand for Northern Telecom's transmission products in the United States, international markets and Canada.

Revenues from Northern Telecom's other products, mainly cable and outside plant, totalled $864 million in 1990. In 1989, these revenues were $857 million, compared with $755 million in 1988.



Northern Telecom revenues by product lines
($ millions)

Northern Telecom's gross profit margin rose to 40.0 per cent in 1990 from 39.4 per cent the preceding year. In 1988 it was 40.8 per cent.

By product line, gross profit margins were mixed. Margin growth in 1990 was due to central office switching and transmission equipment, but for business communications systems and terminals margins were essentially flat. Cable and outside plant products experienced a decline in margins.

Ratio of expenses to revenues dropping

As a result of continued initiatives to improve efficiency, Northern Telecom's 1990 selling, general and administrative expenses totalled $1,455 million in 1990, compared with $1,335 million in 1989 and $1,329 million in 1988. Their ratio to revenues declined from 20.1 per cent in 1988 and 18.6 per cent in 1989 to 18.5 per cent in 1990.

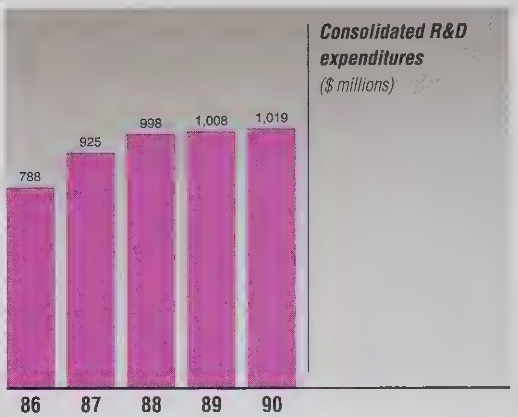
Orders on hand

Orders on hand were up 13 per cent from the end of 1989. At year-end 1990, Northern Telecom had orders on hand of US $2.13 billion. This compares with US $1.88 billion on the books at the same date the preceding year, and US $1.66 billion at year-end 1988. Most of the 1990 orders are for delivery in 1991.

R&D investments continue

Meanwhile, Northern Telecom is continuing to invest heavily in future products. During 1990 its research and development costs totalled $902 million, or 11.5 per cent of revenues. This compares with $863 million (12.1 per cent) in 1989 and $874 million (13.2 per cent) in 1988.

Other BCE companies also continued to reinvest in the future last year through research and development. Consolidated research and development expenditures, including Northern Telecom's net R&D investment, totalled $1,019 million in 1990. This compares with $1,008 million in 1989 and $998 million in 1988.



Montreal Trustco earnings

Montreal Trustco reported net income of $65 million in 1990, compared with $71 million in 1989, a nine per cent drop in earnings for 1990. It took a $6 million charge to provide for costs associated with the closing of its real estate brokerage operations outside the province of Quebec. The real estate brokerage operations incurred an operating loss of $11 million in 1990, reflecting weak market conditions. In addition, general loan loss provisions were increased by $12 million to anticipate the impact of the recessionary environment on the company's loan portfolio.

Other operations

Other operations include international consulting services; international directory services; printing and publishing, most of which were sold in 1988; and other activities. Net revenues were $27 million in 1990, compared with $18 million in 1989 and $40 million in 1988. The increase in 1990 over 1989 is mainly due to international consulting. The decrease in net revenues for 1989 was due mainly to the sale in 1988 of most of the printing and publishing activities and the gradual reduction in international consulting services, reflecting the reduced level of activities in Saudi Arabia.

Associated companies

In addition to its other subsidiaries, BCE holds investments in several associated companies.

The equity in net income of those enterprises dropped from $173 million in 1989 to $155 million in 1990, mainly because of a lower contribution from STC PLC, a telecommunications equipment manufacturer in the United Kingdom.

The increase in equity in net income for 1989 over the $38 million in 1988 was due principally to an increased contribution from TCPL. In 1988, TCPL had incurred a loss on the sale of all its United States oil and gas properties and on the write-down of certain of its assets.

Providing against loans to Kinburn

Beginning in 1988, BCE made loans to Kinburn Corporation. In 1990, Kinburn defaulted on its loans from BCE and other creditors.

At the time of default, in April 1990, BCE was carrying those loans at $350 million, net of provisions of $20 million taken in the first quarter of 1990. BCE also owns shares in SHL Systemhouse Inc. (SHL), a Kinburn subsidiary, which it was carrying at $50 million. The loans were also secured by additional SHL common shares.

During 1990, BCE wrote down the loans and the value of the SHL shares that it owns by $357 million, for an after-tax net of $244 million. The SHL shares and the Kinburn loans together are now carried at $63 million.

Discontinued real estate operations

As described in note 3, BCE discontinued its commercial real estate operations and wrote off its entire common share investment in BCE Development Corporation (BCED) in 1989, which resulted in a discontinued operations loss of $440 million, or $1.48 per BCE common share.

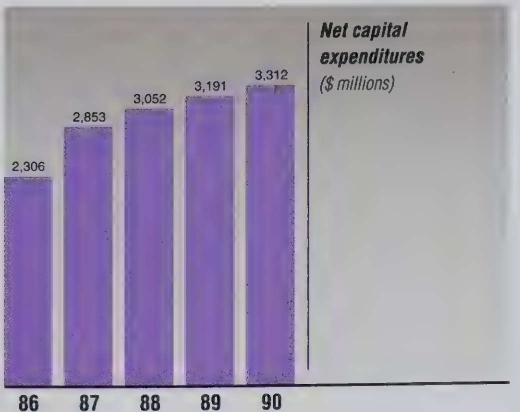
At December 31, 1990, BCE had direct and indirect investments in BCED and in its principal subsidiary, Brookfield Development Corporation, comprised of loans, preferred shares, and convertible debentures for a total of $442 million as compared with $225 million at December 31, 1989.

As also mentioned in note 3, BCE is not required to provide any further financial support to BCED and its subsidiaries in excess of a $350 million commitment of which $62 million was unused at December 31, 1990.

LIQUIDITY AND CAPITAL RESOURCES

The principal requirement for funds is for capital expenditures and investments.

BCE's consolidated net capital expenditures totalled $3,312 million in 1990, a 3.8 per cent increase over the $3,191 million that was invested in 1989. In 1988 these outlays totalled $3,052 million. Most of these expenditures were made by Bell Canada and Northern Telecom.



BCE Inc.

During 1990, $126 million of common equity was raised by BCE through its Dividend Reinvestment and Stock Purchase Plan. The corporation raised another $417.5 million by issuing units comprised of preferred shares and common share purchase warrants. The preferred shares generated $379 million and the common share purchase warrants, $38.5 million.

During 1990, BCE invested $300 million in common shares of Bell Canada and repaid $150 million of BCE maturing notes, which had been issued in 1985.

In addition, BCE increased its direct and indirect investment in BCED and its principal subsidiary, Brookfield Development Corporation, from $225 million to $442 million.

In July 1990, BCE received $99 million from the sale of Encor common shares and warrants to purchase further Encor common shares from BCE. The warrants, which expire on January 21, 1992, will generate total additional proceeds of $79 million, if fully exercised.

On October 1, 1990, BCE also received $328.1 million from the sale of one-half of its 48.8 per cent ownership of TCPL and warrants. This is the first of two payments; the remaining $309 million is due on October 1, 1991. The warrants, which expire in December 1992, will generate total additional proceeds of $656 million, if fully exercised.

At year-end 1990, net short-term borrowings of BCE were down to $970 million, compared with $1,132 million at the close of 1989.

In 1989, BCE raised $132 million of common equity through its Dividend Reinvestment and Stock Purchase Plan and $850 million by issuing preferred shares. During the same year, BCE invested $375 million in common shares of Bell Canada.

It also acquired 100 per cent of the common shares of Montreal Trustco, for a total consideration of $877 million, consisting of $541 million in cash and $336 million from the issue of 8.9 million BCE common shares. On May 2, 1989, BCE also acquired convertible preferred shares of Encor Inc. for a total cost of $226.5 million. It paid for these with $211 million cash and options valued at $15.5 million.

In 1991, BCE will continue to support the equity requirements of its continuing operations and monitor opportunities to refinance its net short-term borrowings. In the absence of any refinancing, a material change is not anticipated in the level of net short-term borrowings at year-end.

Bell Canada

Gross capital expenditures by Bell Canada increased slightly, from $2,331 million in the preceding year to $2,343 million in 1990.

Bell Canada expects to reduce its capital expenditure program for 1991 by approximately five per cent. It should total about $2,228 million, after taking into account lower prices due to the removal of the Canadian Federal Sales Tax and its replacement by the Goods and Services Tax, a value added tax recoverable on business inputs.

Bell Canada will use cash flow and the drawdown of temporary cash investments in 1991 to pay for about two-thirds of its net capital expenditures requirements. It plans to finance the remaining capital expenditures and the repayment of $115 million of maturing long-term debt by raising approximately $600 million. This will be accomplished through the offering of debt and preferred shares to the public for more than two-thirds of the amount and through the sale of additional common shares to BCE for the remainder.

During 1990 Bell Canada raised capital by making a private placement of $125 million in preferred shares, by the public issue in Canada of $250 million of debentures and by the public issue of $125 million of debentures in Europe. In addition, Bell Canada sold approximately $250 million of accounts receivable.

In 1989, Bell Canada sold $325 million of preferred shares through private placements in Canada and completed public offerings of debentures. An amount of $300 million was raised in Canada and another $200 million in Europe.

Northern Telecom

Capital expenditures by Northern Telecom rose 18.1 per cent, to $515 million in 1990 over $436 million in 1989. In 1991, Northern Telecom expects its capital spending, excluding STC, to be marginally lower than in 1990. Northern Telecom expects to meet its cash requirements from operations, complemented, if necessary, by external financing.

As mentioned in note 4-c, Northern Telecom made a successful offer to purchase all the ordinary shares of STC that it did not already own. The amount of the offer for the shares of STC by Northern Telecom is equivalent to approximately $2,960 million.

This acquisition in 1991 was financed by new bank facilities. Approximately 40 per cent of the amount outstanding under these facilities will be repaid utilizing cash available in STC as a result of the sale by STC of 80 per cent of the issued share capital of STC International Computers Limited on November 30, 1990.

In addition, Northern Telecom will consider the repayment of other amounts under the bank facilities by using long-term external financing and by the application of any proceeds obtained from the potential disposal of STC businesses which are not in Northern Telecom's and STC's combined strategic interests.

Contents

Management's responsibility for financial statements

The accompanying consolidated financial statements of BCE Inc. and its subsidiaries, and all information in this annual report, are the responsibility of management and have been approved by the board of directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

The management of the corporation and its subsidiaries, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls and supports an extensive program of internal audits. Management believes the internal accounting controls provide reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies which govern ethical business conduct.

The board of directors carries out its responsibility for the financial statements in this annual report principally through its audit committee, consisting solely of outside directors. The audit committee reviews the corporation's annual consolidated financial statements and recommends their approval by the board of directors. The shareholders' auditors have full access to the audit committee, with and without management being present.

These financial statements have been audited by the shareholders' auditors, Deloitte & Touche, chartered accountants, and their report is presented below.

Donald R. Newman
Vice-President and Comptroller

Auditors' report

To the Shareholders of BCE Inc.

We have audited the consolidated balance sheets of BCE Inc. and its subsidiaries as at December 31, 1990 and 1989, and the consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1990. These consolidated financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1990 and 1989, and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1990, in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche
Chartered Accountants

Montreal, Quebec
February 12, 1991

Consolidated income statement

	For the years ended December 31	1990	1989	1988
		($ millions)		
Total revenues		**18,373**	**16,681**	**14,445**
Telecommunications services	Operating revenues	8,468	8,011	7,092
	Operating expenses	6,284	5,976	5,254
	Net revenues — telecommunications services	**2,184**	**2,035**	**1,838**
Telecommunications equipment manufacturing	Revenues (note 1)	7,851	7,161	6,598
	Cost of revenues	4,707	4,340	3,903
	Selling, general, administrative and other expenses	2,357	2,198	2,203
	Restructuring costs (note 2)	—	—	242
		7,064	6,538	6,348
	Net revenues — telecommunications equipment manufacturing	**787**	**623**	**250**
Financial services	Revenues — Investment and loan income	1,387	851	—
	— Fees and commissions	188	134	—
		1,575	985	—
	Less: Interest expenses	1,208	730	—
	Operating expenses	306	197	—
		1,514	927	—
	Net revenues — financial services	**61**	**58**	**—**
Other operations	Operating revenues	479	524	755
	Operating expenses	452	506	715
	Net revenues — other operations	**27**	**18**	**40**
	Total net revenues	**3,059**	**2,734**	**2,128**
Other income (expense)	Equity in net income of associated companies (note 4)	155	173	38
	Allowance for funds used during construction	41	39	41
	Interest — long-term debt	(730)	(661)	(573)
	— other debt	(222)	(208)	(138)
	Unrealized foreign currency gains (losses) (notes 1 and 24)	(3)	2	2
	Miscellaneous — net (note 8)	(176)	156	152
		(935)	**(499)**	**(478)**
	Income before income taxes and minority interest	2,124	2,235	1,650
	Income taxes (note 7)	628	733	634
	Income before minority interest	1,496	1,502	1,016
	Minority interest	349	301	163
	Income from continuing operations	1,147	1,201	853
	Loss from discontinued real estate operations (note 3)	—	(440)	(7)
	Net income (note 24)	**1,147**	**761**	**846**
	Dividends on preferred shares	85	37	5
	Net income applicable to common shares	**1,062**	**724**	**841**
Earnings per share	Continuing operations	3.50	3.91	2.97
	Discontinued real estate operations (loss)	—	(1.48)	(0.02)
	Earnings per common share (notes 10 and 24)	3.50	2.43	2.95
	Dividends declared per common share	2.53	2.49	2.45
	Average number of common shares outstanding (thousands)	303,813	297,508	285,427

The important differences between Canadian and United States generally accepted accounting principles affecting the consolidated income statement are described and reconciled in note 24.

Consolidated balance sheet

Assets

At December 31		($ millions) 1990	1989
Current assets	Cash and temporary cash investments	308	141
	Accounts receivable (note 11)	3,930	3,611
	Inventories (note 13)	1,043	1,100
	Other (principally prepaid expenses)	480	463
		5,761	**5,315**
Financial services	Short-term securities	1,028	936
	Loans receivable (note 14-a)	9,442	8,349
	Bonds, stocks and other investments (note 14-b)	1,493	1,457
		11,963	**10,742**
Investments	Associated companies (at equity) (notes 1 and 4)	2,338	2,904
	Other investments (notes 4 and 5)	948	736
		3,286	**3,640**
Property, plant and equipment	At cost (note 15)	29,087	26,946
	Less: Accumulated depreciation	10,513	9,655
		18,574	**17,291**
Other assets	Long-term notes and receivables	1,333	1,304
	Deferred charges — unrealized foreign currency losses, less amortization	15	—
	— other	373	283
	Cost of shares in subsidiaries in excess of underlying net assets, less amortization (note 1)	682	686
		2,403	**2,273**
	Total assets	**41,987**	**39,261**

On behalf of the Board of Directors:

Marcel Bélanger
Director

R.M. Barford
Director

Liabilities and shareholders' equity

	At December 31	1990 ($ millions)	1989
Current liabilities	Accounts payable	2,659	2,501
	Advance billing and payments	183	162
	Dividends payable	217	215
	Taxes accrued	180	169
	Interest accrued	297	291
	Debt due within one year (note 16)	1,878	2,342
		5,414	**5,680**
Financial services	Demand deposits (note 14-c)	1,071	1,041
	Investment certificates and borrowings (note 14-c)	10,655	9,359
		11,726	**10,400**
Long-term debt	Long-term debt (note 17)	**7,431**	**7,005**
Deferred credits	Income taxes	2,425	2,430
	Other	389	448
		2,814	**2,878**
Minority interest in subsidiary companies	Preferred shares	1,309	1,262
	Common shares	1,968	1,630
		3,277	**2,892**
Preferred shares	Preferred shares (note 18) (Includes $579 million redeemable at option of holders, not before 1995 (1989 — $200 million))	**1,235**	**858**
Common shareholders' equity	Common shares (note 19)	5,407	5,276
	Common share purchase warrants (note 20)	39	—
	Contributed surplus	1,034	1,034
	Retained earnings	3,727	3,448
	Foreign exchange adjustment (note 21)	(117)	(210)
		10,090	**9,548**
Commitments and contingent liabilities (note 12)			
	Total liabilities and shareholders' equity	**41,987**	**39,261**

Donald R. Newman
Vice-President and Comptroller

Consolidated statement of changes in financial position

For the years ended December 31	1990	($ millions) 1989	1988
Cash and temporary cash investments were provided from (used for)			
Operations	3,481	2,774	2,578
Investments	(4,173)	(5,059)	(3,946)
Financing	1,870	3,332	2,022
Dividends declared	(1,011)	(919)	(811)
Increase (decrease) in cash and temporary cash investments	167	128	(157)
Cash and temporary cash investments at beginning of year	141	13	170
Cash and temporary cash investments at end of year	**308**	**141**	**13**

Cash provided from (used for) operations			
Income from continuing operations	1,147	1,201	853
Items not affecting cash			
Depreciation	2,018	1,813	1,598
Minority interest	349	301	163
Deferred income taxes	70	88	188
Equity in net income of associated companies lower than (in excess of) dividends received	(49)	(69)	56
Allowance for funds used during construction	(41)	(39)	(41)
Other items	68	(74)	(94)
Changes in working capital other than cash and debt			
(Increase) decrease in current assets:			
Accounts receivable	(319)	(463)	(256)
Inventories	57	(29)	(31)
Other current assets	(17)	(123)	(161)
Income and other taxes receivable	—	103	(31)
Increase (decrease) in current liabilities:			
Accounts payable	158	83	270
Advance billing and payments	21	(269)	69
Dividends payable	2	6	27
Taxes accrued	11	166	(79)
Interest accrued	6	79	47
Net cash provided from operations	**3,481**	**2,774**	**2,578**
Cash provided from (used for) investments			
Capital expenditures (net)	(3,312)	(3,191)	(3,052)
Investments — Acquisition of Montreal Trustco Inc.	—	(874)	—
— Other	(372)	(526)	(1,064)
Sales of investments in TCPL and Encor (notes 4-a and 4-b)	710	—	—
Long-term notes and receivables	(29)	6	(98)
Net securities and loans — Financial services			
Short-term securities	(92)	313	—
Loans receivable	(1,093)	(661)	—
Bonds, stocks and other investments	(36)	(275)	—
Other items	51	149	268
Net cash used for investments	**(4,173)**	**(5,059)**	**(3,946)**

Consolidated statement of changes in financial position (continued)

For the years ended December 31	1990	($ millions) 1989	1988
Cash provided from (used for) financing			
Proceeds from long-term debt	656	1,233	1,179
Reduction of long-term debt	(372)	(239)	(443)
Issue of preferred shares	371	847	—
Issue of common shares			
Common shareholder purchase plans	126	132	159
Acquisition of Montreal Trustco Inc.	—	336	—
Issues of preferred and common shares by subsidiaries to minority shareholders	236	463	190
Redemption of preferred shares by subsidiaries	(79)	(51)	(11)
Notes payable and bank advances	(358)	61	1,127
Net deposits and borrowings — Financial services			
Demand deposits	30	80	—
Investment certificates and borrowings	1,296	560	—
Other items	(36)	(90)	(179)
Net cash provided from financing	**1,870**	**3,332**	**2,022**
Dividends declared			
By BCE Inc.			
Preferred shares	(85)	(37)	(5)
Common shares	(769)	(743)	(705)
By subsidiaries to minority shareholders	(157)	(139)	(101)
Total dividends declared	**(1,011)**	**(919)**	**(811)**

Consolidated statement of retained earnings

For the years ended December 31	1990	($ millions) 1989	1988
Balance at beginning of year	**3,448**	**3,477**	**3,345**
Net income	1,147	761	846
	4,595	**4,238**	**4,191**
Deduct:			
Dividends			
Preferred shares	85	37	5
Common shares	769	743	705
	854	780	710
Costs related to issuance and redemption of share capital of BCE Inc. and of subsidiaries	14	10	4
	868	**790**	**714**
Balance at end of year	**3,727**	**3,448**	**3,477**

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and all figures are in Canadian dollars. These statements conform in all material respects with International Accounting Standards. Certain previously reported figures have been reclassified to conform with the current presentation.

With respect to the consolidated financial statements of BCE, the important differences between Canadian and United States generally accepted accounting principles are described and reconciled in note 24.

Consolidation

The consolidated financial statements include the accounts of all majority-owned subsidiaries, either direct or indirect, with the exception of BCE Development Corporation (BCED) (see note 3). The finance subsidiaries of Northern Telecom Limited (Northern Telecom) are also fully consolidated. The investments in associated companies (20% to 50% owned) are accounted for by the equity method.

At December 31, 1990, the direct and indirect subsidiaries of BCE (100% owned, unless otherwise indicated) included Bell Canada, Tele-Direct (Publications) Inc., Northern Telecom Limited (53.1%), Montreal Trustco Inc., BCE Telecom International Inc. (formerly BCE Information Services Inc.), NewTel Enterprises Limited (55.7%), Télébec Ltée, Northern Telephone Limited (99.9%), Northwestel Inc., Bell Canada International Inc. and BCE Mobile Communications Inc. (69.7%).

The excess of cost of shares over acquired equity (goodwill) of subsidiary and associated companies is being amortized to earnings on a straight-line basis over its estimated life. The amortization, over periods up to 40 years, amounted to $68 million in 1990 (1989 — $59 million, 1988 — $45 million).

Telecommunications equipment purchased by Bell Canada and the other telecommunications subsidiaries of BCE, from Northern Telecom and its subsidiaries, is reflected in BCE's consolidated balance sheets at the cost to the purchasing companies, and is included in telecommunications equipment manufacturing revenues in the consolidated income statement. To the extent that any income related to these revenues, and those from associated companies, has not been offset by depreciation or other operating expenses, it remains in consolidated retained earnings and consolidated income. This practice is generally followed with respect to activities of regulated industries. All other significant intercompany transactions have been eliminated in the consolidated financial statements.

Telecommunications equipment manufacturing revenues comprise:

	($ millions)		
	1990	1989	1988
a) revenues from			
Bell Canada	1,477	1,495	1,416
Other telecommunications subsidiary and associated companies of BCE	266	238	181
b) revenues from others	6,108	5,428	5,001
Total	**7,851**	**7,161**	**6,598**

Depreciation

Depreciation is generally computed using the straight-line method, with rates based on the estimated useful lives of the assets.

Research and development

All research and development costs incurred, which amounted to $1,019 million (1989 — $1,008 million, 1988 — $998 million), are charged to income.

1. ACCOUNTING POLICIES (continued)

Financial services

— Asset valuation

Debt securities and certain preferred shares are valued at amortized cost plus accrued interest; other securities are valued at cost. Provision for permanent impairment in the value of securities is made where appropriate. Corporate and commercial loans are shown net of any provisions for losses. Mortgages are valued at amortized cost plus accrued interest less provisions for losses.

— Assets under administration

Assets held under administration by Montreal Trustco Inc., which amounted to $43.3 billion at December 31, 1990 (1989 — $38.8 billion), are not reflected on the consolidated balance sheet.

Translation of foreign currencies

Foreign operations are classified as integrated or self-sustaining.

— Integrated foreign operations and transactions denominated in foreign currencies

Current assets (excluding inventories and prepaid expenses), current liabilities and long-term monetary assets and liabilities are translated at the rates in effect at the balance sheet date, whereas other assets and other liabilities are translated at rates prevailing at the respective transaction dates; revenues and expenses are translated at average rates prevailing during the year, except for cost of inventory used, depreciation and amortization, which are translated at exchange rates prevailing when the related assets were manufactured or acquired. Currency gains and losses are reflected in net income of the year, except for unrealized foreign currency gains and losses on long-term monetary assets and liabilities, which are reported as a deferred charge and amortized over the remaining lives of the related items on a straight-line basis.

— Self-sustaining foreign operations

Assets and liabilities denominated in a foreign currency are translated in Canadian dollars, at exchange rates in effect at the balance sheet date. The resulting gains or losses are accumulated in a separate component of shareholders' equity. Revenue and expense items are translated at average exchange rates prevailing during the year.

Leases

Leases are classified as capital or operating leases. When the corporation is the lessor, rental revenue from operating leases is recognized as service is provided to customers. For leases which qualify as sales-type leases, the sales revenue is recorded at the inception of the lease. When the corporation is the lessee, assets recorded under capital leases are amortized on a straight-line method, using rates based on the estimated useful life of the asset or based on the lease term as appropriate. Obligations recorded under the capital leases are reduced by rental payments net of imputed interest.

Inventories

Inventories are valued at the lower of cost (calculated generally on a first-in, first-out basis) or net realizable value. The cost of finished goods and work-in-process inventories is comprised of material, labour and manufacturing overhead.

Allowance for funds used during construction

Regulatory authorities require telecommunications companies to provide for a return on capital invested in new plant while under construction, by including an allowance for funds used during construction as an item of income during the construction period, and also as an addition to the cost of plant constructed. Such income is not realized in cash currently but will be realized over the service life of the plant.

Consulting services

Consulting services under contract to clients, principally foreign telecommunications organizations, are included in other operations. The percentage-of-completion accounting method is used in the determination of income from such operations.

1. ACCOUNTING POLICIES (continued)

Income taxes

BCE and its subsidiaries use the tax allocation basis of accounting for income taxes. The corporation provides for income taxes based on accounting income for tax purposes included in the financial statements, regardless of when such income is subject to taxes under tax laws. The difference between taxes payable and taxes accrued is accounted for under Deferred credits — Income taxes on consolidated balance sheets.

In July 1989, the Canadian Radio-television and Telecommunications Commission (CRTC) directed federally regulated carriers (which include Bell Canada and Northwestel Inc.) that their deferred credits — income taxes be adjusted to reflect the reduced combined statutory corporate income tax rate in effect on January 1, 1989, and that the resulting adjustment of $293 million ($290 million applicable to Bell Canada) be amortized as a reduction to income tax expense over a five-year period commencing in October 1989. The unamortized tax adjustment remains in deferred credits — income taxes. Adjustments to the deferred credits — income taxes, resulting from subsequent minor changes to income tax rates, will be taken into income in the year in which the changes occur. A longer amortization period will be considered by the CRTC if any subsequent adjustment to the deferred credits — income taxes has a significant impact on the rates of return on equity of these companies.

Investment tax credits reduce the provision for income taxes in the same periods in which the related expenditures are charged to earnings.

2. RESTRUCTURING COSTS OF NORTHERN TELECOM LIMITED

During the fourth quarter of 1988 Northern Telecom announced plans to phase out certain manufacturing plants and to restructure certain other businesses in order to enhance its ability to compete more effectively in its global markets. As a result, a provision of $242 million was established in 1988 by Northern Telecom to cover the costs of this restructuring program.

3. DISCONTINUED REAL ESTATE OPERATIONS

Effective from December 31, 1989, BCE ceased carrying on commercial real estate operations and its common share investment in BCED was fully written off in 1989. Therefore, BCED is reflected as a discontinued operation in BCE's financial statements and no further losses relating to the common shareholders of BCED are being reflected in the financial results of BCE.

BCE has entered into an agreement with Carena Developments Limited (Carena) to facilitate the implementation of a restructuring of BCED. The agreement calls for total funds to be provided by BCE and Carena of up to a principal amount of $350 million each (increased from $250 million). BCE is not required to provide any further financial support to BCED and its subsidiaries. BCE has advanced approximately $288 million in principal amount as at December 31, 1990 ($97 million as at December 31, 1989). These advances, together with BCE's other direct and indirect investments in BCED and its subsidiaries, are included under Other investments in BCE's consolidated balance sheet. Carena provides the ongoing management to BCED and its subsidiaries.

BCE's direct and indirect investments in BCED and its principal subsidiary, Brookfield Development Corporation, increased by $217 million during 1990, from $225 million as of December 31, 1989, to $442 million.

4. INVESTMENTS IN ASSOCIATED COMPANIES

BCE uses the equity method of accounting for investments in companies where ownership by BCE, or a subsidiary, ranges from 20% to 50%. Under this accounting method, BCE's proportional share of income of such companies, from the dates of their acquisition, net of amortization of excess purchase price over net assets acquired, is taken into income and added to the cost of investments. Income received from these companies reduces the carrying amounts of the investments.

Three-year summary of investments in associated companies:

	($ millions)						
	TCPL* (a)	**STC PLC** (c)	**MT&T and Bruncor Inc.** (d)	**Memotec Data Inc.** (e)	**Quebecor inc.** (f)	**Other companies**	**Total**
1988							
Balance — January 1, 1988	998	1,247	176	209	—	119	2,749
Cost of investments	134	40	9	20	80	13	296
Equity income (loss)	(65)	63	23	6	2	9	38
Income received	(50)	(26)	(15)	(1)	(1)	(1)	(94)
Currency translation	(17)	(163)	—	(2)	—	—	(182)
Sale of investments	—	—	—	—	—	(57)	(57)
Balance — December 31, 1988	1,000	1,161	193	232	81	83	2,750
1989							
Cost of investments	237	—	10	4	—	12	263
Equity income	62	78	21	3	3	6	173
Income received	(51)	(29)	(16)	(5)	(1)	(2)	(104)
Currency translation and other adjustments	(12)	(152)	—	—	(1)	(13)	(178)
Balance — December 31, 1989	1,236	1,058	208	234	82	86	2,904
1990							
Cost of investments	8	—	7	5	1	14	35
Equity income	52	60	21	—	16	6	155
Income received	(45)	(35)	(17)	(6)	(1)	(2)	(106)
Currency translation and other adjustments	1	186	—	(2)	(1)	(16)	168
Sale of investments	(498)	—	—	—	—	—	(498)
Transfer of Encor (b)	(320)	—	—	—	—	—	(320)
Balance — December 31, 1990	434	1,269	219	231	97	88	2,338

* Includes Encor Inc. to July 1990; see (b) on the following page.

4. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

(a) TCPL

At December 31, 1990, BCE owned approximately 24.4% of common shares (37,647,081 shares) of TransCanada PipeLines Limited (TCPL) (1989 — 48.9% (74,611,977 shares), 1988 — 49.1% (73,896,249 shares)), while at the same date warrants to purchase 37,500,000 TCPL common shares from BCE were also outstanding.

The reduction in ownership in 1990 reflects the sale of 37,500,000 TCPL common shares, as part of units, by BCE to a group of underwriters pursuant to an underwriting agreement entered into in September 1990. The units offered by BCE consisted of 37,500,000 TCPL common shares sold on an instalment basis and warrants to purchase a further 37,500,000 TCPL common shares from BCE at $17.50 per share for a total exercise price of $656 million. The purchase price for the TCPL common shares is payable in two instalments for a total consideration of $618.8 million (excluding underwriters' fee and expenses of issue). The warrants were sold for an aggregate consideration of $18.7 million (excluding underwriters' fee and expenses of issue) and expire on December 15, 1992. The first instalment of $309.4 million for the common shares and $18.7 million for the warrants was received on October 1, 1990, and the remaining $309.4 million is due by October 1, 1991. BCE realized a gain of $149 million ($120 million after tax) on the 37,500,000 TCPL common shares and the warrants sold as part of the units.

Equity income of TCPL was based on 24.4% ownership from October 1, 1990.

The results and financial position of TCPL are set out in the table below. These figures include oil and gas operations to May 2, 1989, which are reported by TCPL as discontinued operations.

	($ millions)		
Results:	1990	1989	1988
Revenues	3,033	3,083	3,269
Income from continuing operations	215	210	72
Loss from discontinued oil and gas operations	—	(13)	(81)
Net income (loss)	215	197	(9)
Dividends on preferred shares	25	32	37
Net income (loss) applicable to common shares	190	165	(46)

Income from continuing operations in 1988 is after deduction of non-recurring items aggregating $72 million.

	($ millions)	
Financial position:	December 31, 1990	December 31, 1989
Total assets	5,240	4,623
Total liabilities	3,570	3,110
Preferred shareholders' equity	389	344
Common shareholders' equity	1,281	1,169

(b) Encor

As a result of a restructuring of TCPL, which became effective on May 2, 1989, TCPL distributed to its common shareholders one common share of a recapitalized Encor Inc. (Encor) for each common share of TCPL they owned. As a result of that distribution, BCE received 48.9% of the outstanding Encor common shares.

At December 31, 1990, BCE owned approximately 19.3% of common shares (29,702,130 shares) of Encor, compared with 48.9% (74,253,930 shares) at December 31, 1989, and 100% of the redeemable convertible preferred shares of Encor convertible into 74,618,433 common shares which were acquired on May 2, 1989. At December 31, 1990, warrants to purchase from BCE 29,701,200 Encor common shares were also outstanding. The reduction in ownership reflects the sale by BCE, in July 1990, of units consisting of 44,551,800 Encor common shares and warrants to purchase 29,701,200 Encor common shares from BCE at $2.65 per share for a total exercise price of $79 million. BCE's common shareholding was reduced to 29,702,130 common shares of Encor prior to exercise of the warrants. The net proceeds received in July 1990 amounted to $99 million. The warrants expire on January 21, 1992.

Commencing with the third quarter of 1990, BCE no longer accounts for its common share investment in Encor by the equity method. Therefore, the carrying value of the remaining investments in common shares after the above-mentioned sale ($79 million) and preferred shares of Encor have been transferred to Other investments.

4. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

(c) STC

At December 31, 1990, Northern Telecom, a 53.1% owned subsidiary, owned approximately 27.0% (1989 — 27.2%, 1988 — 27.5%) of the ordinary shares of STC PLC (STC). Northern Telecom's equity income in STC is after deducting amortization of goodwill over 40 years.

On January 21, 1991, Northern Telecom had voting rights with respect to 96.9% of the outstanding ordinary shares of STC pursuant to the offer announced on November 8, 1990, to acquire all the outstanding ordinary shares of STC not already owned for an aggregate price equivalent to approximately $2,960 million. Pursuant to procedures commenced by Northern Telecom, it will acquire the remaining shares of STC, not tendered under the offer. Northern Telecom will finance the purchase of the shares by new bank facilities. STC will be fully consolidated in 1991.

The results and financial position of STC are:

		($ millions)	
Results:	1990	1989	1988
Revenues	4,758	5,095	5,207
Gross profit	1,920	2,242	2,052
Income before extraordinary items	178	344	320
Net income applicable to ordinary shares	848*	344	329

		($ millions)
Financial position:	December 31, 1990	December 31, 1989
Total assets	3,351	3,356
Total liabilities	1,227	2,137
Ordinary shareholders' equity	2,124	1,219

* Included in the net income applicable to ordinary shares of STC for 1990 is a gain of some $670 million resulting from the disposition of 80% of STC's wholly owned subsidiary, STC International Computers Limited, to Fujitsu Limited, effective November 30, 1990. The applicable portion of such gain is not included in BCE's and Northern Telecom's earnings as it is treated as an adjustment to Northern Telecom's goodwill in respect of STC.

(d) MT&T and Bruncor

At December 31, 1990, BCE owned 31.4% of the common shares of Bruncor Inc. and 9,148,200 common shares (33.8%) of Maritime Telegraph and Telephone Company, Limited (MT&T). A Nova Scotia statute provides that no more than 1,000 shares of MT&T may be voted by any one shareholder.

(e) Memotec

At December 31, 1990, the investment in Memotec Data Inc., the parent corporation of Teleglobe Canada Inc., represented an interest of approximately 31.5% (1989 — 30.8%) on a fully diluted basis. Equity income is after amortization of goodwill, amortized over 20 years.

(f) Quebecor

At December 31, 1990, BCE owned 5,094,300 common shares, Class B, of Quebecor inc., which represented an equity interest of 21.6%. Five million of these shares were acquired in October 1988 as part of the consideration received for the sale by BCE of most of its printing businesses to Quebecor and the balance was acquired in the open market in 1990. Equity income is after amortization of goodwill, amortized over 20 years.

5. OTHER INVESTMENTS

Other investments included:

	($ millions)	
	December 31, 1990	December 31, 1989
Common and preferred shares of Encor Inc. (see note 4-b)	327	—*
Loans to Kinburn Corporation and shares of SHL Systemhouse Inc. (see note 8-c)	63	426
Long-term portion of notes of Quebecor receivable in annual instalments to October 1998	55	62
Direct and indirect investments in BCE Development Corporation and its principal subsidiary, Brookfield Development Corporation, comprised of loans, preferred shares and convertible debentures	442	225

* At December 31, 1989, included in Investments at equity.

6. ACQUISITION OF MONTREAL TRUSTCO INC.

On December 31, 1990, BCE owned 100% of the common shares of Montreal Trustco Inc., which was acquired in the second quarter of 1989.

At date of acquisition, the total assets of Montreal Trustco were $10,363 million, and liabilities and preferred shares amounted to $9,968 million. This acquisition, accounted for as a purchase, was for a consideration of $877 million ($541 million in cash and $336 million in BCE common shares) and resulted in goodwill of $482 million which is amortized over forty years.

7. INCOME TAXES

A reconciliation of the statutory income tax rate to the effective income tax rate follows:

	1990	1989	1988
Statutory income tax rate in Canada	41.2 %	41.1 %	44.6 %
(i) Allowance for funds used during construction, net of applicable depreciation adjustment	(0.3)	(0.3)	(0.5)
(ii) Reduction of Canadian federal taxes applicable to manufacturing profits	(0.5)	(0.3)	(0.8)
(iii) Equity in net income of associated companies	(3.0)	(3.2)	(1.0)
(iv) Tax incentives on research and development expenditures	(4.6)	(3.9)	(5.7)
(v) Difference between Canadian statutory rates and those applicable to foreign subsidiaries	(1.5)	(1.2)	(1.3)
(vi) Other	(1.7)	0.6	3.1
Effective income tax rate	**29.6 %**	**32.8 %**	**38.4 %**

Details of income taxes:

	($ millions)		
	1990	1989	1988
Income before income taxes and minority interest			
Canadian	1,611	1,810	1,513
Foreign	513	425	137
Total income before income taxes and minority interest	**2,124**	**2,235**	**1,650**
Income taxes			
Canadian	460	604	615
Foreign	168	129	19
Total income taxes	**628**	**733**	**634**
Income taxes			
Current	558	645	446
Deferred	70	88	188
Total income taxes	**628**	**733**	**634**

Deferred income taxes result from deductions for tax purposes, principally in respect of plant, in excess of amounts currently charged to operations.

Deferred credits — Income taxes on the consolidated balance sheet includes the unamortized deferred tax adjustment in the amount of $219 million (1989 — $278 million) (see note 1).

8. OTHER INCOME — Miscellaneous — net

	($ millions)		
	1990	1989	1988
Interest income	84	82	55
Gains recorded on disposition of, or reduction of ownership interest in, subsidiary and associated companies			
BCE Mobile Communications Inc.	44	110	36
TransCanada PipeLines Limited (a)	149	—	—
Other subsidiaries (b)	—	—	91
Other	(96)	(36)	67
	181	156	249
Less: Provisions (c)	357	—	97
	(176)	**156**	**152**

(a) Gain on sale in 1990 of units, consisting of TCPL common shares and warrants to purchase TCPL common shares; see note 4-a.

(b) Principally printing operations.

(c) The 1990 provision, before a tax effect of $113 million, relates to loans to Kinburn Corporation and common shares of SHL Systemhouse Inc. to reduce the carrying value of those investments to $63 million. The 1988 provision relates to international operations, printing and publishing.

9. FINANCE SUBSIDIARIES OF NORTHERN TELECOM

The following is a summary of the combined financial data of the finance subsidiaries of Northern Telecom:

	($ millions)		
	1990	1989	1988
Interest income from			
Northern Telecom's subsidiaries	52	46	45
Other*	120	104	91
Rental and other income	—	1	1
Interest charges*	(69)	(55)	(43)
Administrative expenses	(26)	(29)	(22)
Earnings from operations	77	67	72
Currency exchange losses	—	(1)	(4)
Provision for income taxes	(8)	(1)	(2)
Net earnings	69	**65**	**66**

* Included in revenues and cost of revenues, respectively, of Telecommunications equipment manufacturing.

	($ millions)	
	December 31, 1990	December 31, 1989
Total assets	1,463	1,425
Total liabilities	727	760
Shareholders' equity	736	665

10. EARNINGS PER COMMON SHARE

Earnings per common share are based on the weighted average number of shares outstanding and are calculated after deducting dividends on preferred shares. The dilutive effect on the BCE earnings per share, after the assumed exercise of warrants, conversion of convertible preferred shares and exercise of options, is insignificant.

11. ACCOUNTS RECEIVABLE

At December 31, 1990, accounts receivable included $309 million representing the second instalment from the sale of TCPL common shares due October 1, 1991 (see note 4-a), and $77 million (1989 — $45 million) from associated companies. Provision for uncollectibles was $50 million (1989 — $44 million).

12. COMMITMENTS AS LESSEE

At December 31, 1990, the future minimum lease payments under capital leases and operating leases with initial non-cancellable lease terms in excess of one year were:

	($ millions)	
	Capital leases	Operating leases
1991	18	249
1992	18	184
1993	17	149
1994	20	105
1995	14	76
Thereafter	62	311
Total future minimum lease payments	149	1,074
Less: Estimated executory costs	34	
Net minimum lease payments	115	
Less: Imputed interest	48	
Present value of net minimum lease payments	**67**	

Rental expense applicable to all operating leases for the year 1990 was $322 million (1989 — $303 million, 1988 — $270 million).

13. INVENTORIES

	($ millions)	
	December 31, 1990	December 31, 1989
Raw materials	277	315
Work-in-process	238	245
Finished goods	528	540
	1,043	**1,100**

14. FINANCIAL SERVICES

(a) Loans receivable

	($ millions)			
	December 31, 1990		December 31, 1989	
	Amount	Yield	Amount	Yield
Corporate and commercial loans				
At variable rates	1,782	13.34%	1,662	13.81%
At fixed rates (principally due within five years)	773	12.69%	681	12.46%
	2,555		2,343	
Allowance for loan losses	(29)		(24)	
	2,526		**2,319**	
Mortgages				
At variable rates	225		159	
At fixed rates (all due within five years)	6,738		5,898	
	6,963		6,057	
Allowance for loan losses	(47)		(27)	
	6,916		**6,030**	
Total loans receivable	**9,442**		**8,349**	
Breakdown of mortgages is as follows:				
Residential	4,268	12.01%	3,895	11.48%
Income property	2,695	12.06%	2,162	11.44%
	6,963		**6,057**	

	($ millions)	
	December 31, 1990	December 31, 1989
Allowance for loan losses		
Balance at beginning of 1990	51	
At date of acquisition of Montreal Trustco Inc. by BCE		53
Provision for loan losses during the period	20	4
Adjustment related to the acquisition of a company	9	—
Realized loan losses	(4)	(6)
Balance at end of year	76	51

14. FINANCIAL SERVICES (continued)

(b) Bonds, stocks and other investments

	December 31, 1990 Cost	December 31, 1990 Market	December 31, 1989 Cost	December 31, 1989 Market
	($ millions)			
Bonds and debentures				
Corporate and government				
Fixed interest rates	661	659	568	566
Variable interest rates	110	108	76	76
	771	**767**	**644**	**642**
Stocks				
Preferred stocks				
Fixed dividend rates	308	282	362	352
Variable dividend rates	241	212	226	222
Common stocks	118	111	171	197
	667	**605**	**759**	**771**
Other investments	**55**		**54**	
Total bonds, stocks and other investments	**1,493**		**1,457**	

(c) Demand deposits, investment certificates and borrowings

	December 31, 1990	December 31, 1990 Nominal rate	December 31, 1989	December 31, 1989 Nominal rate
	($ millions)			
Demand deposits	1,071	9.43%	1,041	9.12%
Investment certificates and borrowings	10,655	11.10%	9,359	10.86%
	11,726		**10,400**	

At December 31, 1990, the investment certificates and borrowings due in the years 1991 to 1995 were $5,579 million, $1,583 million, $1,840 million, $852 million and $572 million, respectively; and in 1996 and thereafter, $229 million.

In the ordinary course of managing its assets and liabilities, Montreal Trustco Inc. uses various financial instruments, which are not reflected in the financial statements, to reduce or eliminate its exposure to foreign exchange or interest rate risks. Foreign currency risk is managed through foreign exchange contracts and cross currency swaps. Instruments such as future rate agreements and interest rate swaps are used to convert fixed rate asset or liability exposures to floating rates.

Income or expense associated with currency and interest rate swaps are accrued over the life of the agreements. Gains and losses on future rate agreements and foreign exchange contracts which are principally entered into for hedging purposes are deferred and recognized in income over the expected remaining life of the hedged items.

The nominal value of the instruments entered into are:

	December 31, 1990	December 31, 1989
	($ millions)	
— Currency and interest rate swaps	3,785	2,766
— Future rate agreements	425	184
— Foreign exchange contracts	265	29

In order to meet the needs of its customers, Montreal Trustco Inc. also made commitments to extend credit in the amount of $711 million.

15. PROPERTY, PLANT AND EQUIPMENT

	($ millions)			
	December 31, 1990		December 31, 1989	
	Cost	Net of accumulated depreciation	Cost	Net of accumulated depreciation
Telecommunications services				
Buildings, plant and equipment	24,264	15,858	22,304	14,570
Land	115	115	109	109
Plant under construction	484	484	558	558
Material and supplies	87	87	101	101
	24,950	**16,544**	**23,072**	**15,338**
Telecommunications equipment manufacturing				
Buildings, plant and equipment	3,746	1,762	3,487	1,681
Land	38	38	35	35
	3,784	**1,800**	**3,522**	**1,716**
Other				
Buildings, plant and equipment	348	225	344	229
Land	5	5	8	8
	353	**230**	**352**	**237**
	29,087	**18,574**	**26,946**	**17,291**
Capitalized leases included in the above amounts	77	48	94	53

16. DEBT DUE WITHIN ONE YEAR

	($ millions)	
	December 31, 1990	December 31, 1989
Long-term debt — current portion	357	466
Notes payable	1,408	1,687
Bank advances	113	189
	1,878	**2,342**

17. LONG-TERM DEBT

		($ millions) Total outstanding December 31 1990	1989
BCE Inc.			
11⅝% Notes due 1990		—	50
10¼% Notes due 1990		—	100
10% Notes due 1992		300	300
9⅝% Notes due 1993		300	300
Total — BCE		***600***	***750***
Bell Canada			
Interest rates	Maturities		
First mortgage bonds (a)			
4.85% to 7⅞%	1990 to 2003	435	465
8% to 9⅞%	1990 to 2004	632	684
10% to 10½%	1994 to 1996	71	71
Debentures and notes (b)			
5⅛%	1993	91	75
8¾% to 9⅞%	1996 to 2011	1,314	1,313
10% to 12.65%	1991 to 2015	2,125	1,750
13⅜% to 17.1%	1994 to 2010	469	469
Other		45	54
Total — Bell Canada		***5,182***	***4,881***
Other subsidiaries (c)		***2,006***	***1,840***
Sub-total — BCE consolidated		***7,788***	***7,471***
Less: Due within one year		357	466
Total — BCE consolidated		7,431	**7,005**

(a) The first mortgage bonds of Bell Canada, which include US $418 million maturing from 1994 to 2004, are secured by a first mortgage and a floating charge on Bell Canada.

(b) Debentures and notes of Bell Canada include US $600 million maturing from 2006 to 2010; 100 million Swiss francs maturing in 1993; and 195 million New Zealand dollar notes maturing in 1994 which are hedged as to principal amount and the related interest payments.

(c) Excluding consolidated debt of Montreal Trustco Inc., which is reported under Financial services — Investment certificates and borrowings.

At December 31, 1990, the estimated amounts of long-term debt payable by the corporation and its subsidiaries in the years 1991 to 1995 were $357, $699, $759, $623 and $418 million, respectively.

18. PREFERRED SHARES

Authorized

The articles of incorporation of BCE provide for an unlimited number of first preferred shares and second preferred shares. The articles authorize the Directors to issue such shares in one or more series and to fix the number of shares of each series, and the conditions attaching thereto, prior to their issue.

Outstanding	December 31, 1990 Number of shares	December 31, 1990 Stated capital ($ millions)	December 31, 1989 Number of shares	December 31, 1989 Stated capital ($ millions)
First Preferred Shares				
$1.96 shares, series G (a)	12,239	1	69,391	2
$2.05 shares, series H (b)	261,403	5	315,830	6
Series J shares (c)	600	300	600	300
$1.95 shares, series M (d)	8,000,000	200	8,000,000	200
Series N shares (e)	700	350	700	350
Series O shares (f)	10,000,000	379	—	—
		1,235		**858**

(a) $1.96 shares

The $1.96 preferred shares have cumulative annual dividends of $1.96 per share, payable quarterly, and have one vote per share. They are redeemable at BCE's option at $25 per share. In 1990, 100 preferred shares were purchased for cancellation and, prior to the expiry of the conversion privilege on May 1, 57,052 shares were converted.

(b) $2.05 shares

The $2.05 preferred shareholders are entitled to cumulative annual dividends of $2.05 per share, payable quarterly, and have one vote per share. These shares, which are redeemable, at BCE's option, at $20 per share, are convertible into one common share on or before April 15, 1992. At December 31, 1990, 9,738,597 shares had been converted (including 54,427 during 1990, 152,122 during 1989 and 170,795 during 1988). BCE shall make all reasonable efforts to purchase quarterly for cancellation, in the open market, 125,000 shares at a price not exceeding $20 per share plus costs of purchase.

(c) Series J shares

The Cumulative Redeemable First Preferred Shares, Series J were issued in March 1989, by way of private placement at $500,000 per share to yield 7.64%. The Series J preferred shareholders are entitled to cumulative annual dividends of $38,200 per share, payable quarterly, to September 30, 1994. After that date, the quarterly dividends will be determined by one of: direct negotiation between BCE and holders of the shares; bids solicited from investment dealers; or an auction procedure. These shares, which are non-voting except in certain circumstances where Series J preferred shareholders are entitled to 5,000 votes per share, are not redeemable prior to September 30, 1994. From that date, they will be redeemable, at BCE's option, at a price of $500,000 per share.

(d) $1.95 shares

The $1.95 Cumulative Redeemable Retractable First Preferred Shares, Series M were issued in April 1989, at $25 per share to yield 7.80%. The $1.95 preferred shareholders are entitled to cumulative annual dividends of $1.95 per share, payable quarterly. These shares, which are non-voting except in certain circumstances where $1.95 preferred shareholders are entitled to one vote per share, are redeemable at the holder's option on April 30, in each of the years 1995 and 1996, at $25 per share, and on or after April 30, 1995, at BCE's option, at $25 per share. BCE may elect, on or before March 16, 1995, to create a further series of first preferred shares into which the $1.95 shares will be convertible on a share for share basis, at the option of the holder, on April 30, 1995.

(e) Series N shares

The Cumulative Redeemable First Preferred Shares, Series N were issued in October 1989, by way of private placement at $500,000 per share to yield 7.55%. The Series N preferred shareholders are entitled to cumulative annual dividends of $37,750 per share, payable quarterly, to November 30, 1994. After that date, the quarterly dividends will be determined by one of: direct negotiation between BCE and holders of the shares; bids solicited from investment dealers; or an auction procedure. These shares, which are non-voting except in certain circumstances where Series N preferred shareholders are entitled to 5,000 votes per share, are not redeemable prior to November 30, 1994. From that date, they will be redeemable, at BCE's option, at a price of $500,000 per share.

18. PREFERRED SHARES (continued)

(f) **Series O shares**

On April 26, 1990, BCE issued 10,000,000 Variable Rate Cumulative Redeemable Retractable and Convertible First Preferred Shares, Series O. The holders of Series O preferred shares are entitled to receive quarterly cumulative dividends in an amount equal to the greater of the quarterly dividend declared on common shares of BCE and $0.65 per share. The Series O preferred shares, which are non-voting except in certain circumstances where the Series O preferred shareholders are entitled to one vote per share, are redeemable at the option of the holders on April 27, 1995, at a price of $41.75 per share. After April 28, 1995, Series O preferred shares will be redeemable at the option of BCE at $41.75 per share. On April 28, 1995, holders of Series O preferred shares may acquire, for each Series O preferred share held, one common share of BCE by the combined effect of the tendering for conversion of one Series O preferred share and the exercise of one warrant together with a cash payment of $4.00 per warrant (see note 20 for a description of the warrants).

19. COMMON SHARES

Authorized: an unlimited number of common shares

	December 31, 1990		December 31, 1989	
	Number of shares	Stated capital ($ millions)	Number of shares	Stated capital ($ millions)
Outstanding	**305,411,936**	**5,407**	**302,052,182**	**5,276**

Number of common shares issued during the last three years:

	1990	1989	1988
For cash			
Shareholder Dividend Reinvestment and Stock Purchase Plan	3,236,869	3,275,305	4,145,581
Exercise of options	—	16,187	—
Conversion of preferred shares	122,885	247,670	11,455,000
Optional Stock Dividend Program	—	64,807	76,668
On acquisition of Montreal Trustco Inc.	—	8,902,489	—
	3,359,754	**12,506,458**	**15,677,249**

Stock options

Under the Long-Term Incentive (Stock Option) Program (1985) (the Plan), options may be granted to officers and other key employees of BCE and of its subsidiaries to purchase common shares of BCE at a subscription price of 100% of market value. The options are exercisable during a period not to exceed ten years. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first twelve months after the date of the grant. Simultaneously with the grant of an option, the employee may also be granted the right to a special compensation payment (SCP) (payable, in accordance with the terms of the Plan, in cash or in shares of BCE). The amount of any SCP is equal to the increase in market value of the number of BCE shares covered by the SCP (which number may not exceed the number of shares covered by the option to which it is related) from the date of grant of the SCP to the date of exercise of the option to which the SCP is related.

At December 31, 1990, a total of 4,979,621 common shares had been authorized for issuance under the Plan. Shares covered by options granted with respect to any year may not exceed one-half of one per cent of the outstanding common shares of the corporation at the end of the immediately preceding year.

19. COMMON SHARES (continued)

As of February 12, 1991, options covering 880,111 shares were outstanding: 465,110 granted with respect to the years 1984 to 1987, at an exercise price varying from $37.625 to $39.75 per share; 141,428 granted with respect to the year 1988, at an exercise price of $36.8125 per share; 136,022 granted with respect to the year 1989, at an exercise price of $43.25 per share; and 137,551 granted with respect to the year 1990, at an exercise price varying from $35.625 to $40.125 per share. Under the terms of the Plan, options granted with respect to 1984, 1985 and 1986, three-quarters of those with respect to 1987, one-half of those with respect to 1988 and one-quarter of those with respect to 1989 are now exercisable. In addition, SCPs have been granted to the same key employees covering the same number of shares as the options to which the SCPs are related with the exception of options covering 57,167 shares granted with respect to the year 1990 for which no SCPs have been granted.

Additional common shares reserved at December 31, 1990 — 17,224,707:

6,963,304 shares for issuance under the Shareholder Dividend Reinvestment and Stock Purchase Plan.

261,403 shares for issuance upon conversion of the $2.05 convertible preferred shares.

10,000,000 shares for issuance upon exercise of warrants and/or conversion of Series O preferred shares.

20. COMMON SHARE PURCHASE WARRANTS

On December 31, 1990, there were 10,000,000 Common Share Purchase Warrants outstanding. These warrants were issued concurrently with the Series O preferred shares on April 26, 1990, for $38.5 million, they will expire on April 28, 1995, and entitle their holders to subscribe for one BCE common share for each warrant for $45.75 in cash (or on April 28, 1995, a cash payment of $4.00 and the tendering for conversion of one Series O preferred share — see also note 18-f).

21. FOREIGN EXCHANGE ADJUSTMENT

Following is an analysis of the foreign exchange adjustment included in the common shareholders' equity resulting from self-sustaining foreign operations:

	($ millions)		
	1990	1989	1988
Balance at beginning of year	**(210)**	**(99)**	**92**
Translation adjustments for the year	93	(111)	(191)
Balance at end of year	**(117)**	**(210)**	**(99)**

22. UNUSED BANK LINES OF CREDIT

At December 31, 1990, unused bank lines of credit, generally available at the prime bank rate of interest, amounted to approximately $2,989 million. This amount excludes credit available to Northern Telecom in relation to its acquisition of STC PLC.

23. QUARTERLY FINANCIAL DATA

Summarized consolidated quarterly financial data:

($ millions, except per share amounts)

	Quarters — 1990			
	First	Second	Third	Fourth
Total revenues	**4,406**	**4,602**	**4,490**	**4,875**
Telecommunications services				
Operating revenues	2,070	2,117	2,133	2,148
Net revenues	517	540	595	532
Telecommunications equipment manufacturing				
Revenues	1,848	1,981	1,844	2,178
Gross profit	709	761	743	931
Net revenues	150	164	164	309
Financial services				
Revenues	369	388	407	411
Net revenues	20	20	22	(1)
Other operations				
Operating revenues	119	116	106	138
Net revenues	7	7	5	8
Net income	265	268	269	345
Net income applicable to common shares	249	247	244	322
Earnings per common share	0.82	0.82	0.80	1.05
Average number of common shares outstanding (thousands)	302,603	303,359	304,185	305,072

	Quarters — 1989			
	First	Second	Third	Fourth
Total revenues	**3,668**	**4,189**	**4,186**	**4,638**
Telecommunications services				
Operating revenues	1,920	2,000	2,040	2,051
Net revenues	500	491	570	474
Telecommunications equipment manufacturing				
Revenues	1,626	1,797	1,664	2,074
Gross profit	609	700	663	849
Net revenues	70	140	139	274
Financial services				
Revenues	—	267	355	363
Net revenues	—	21	22	15
Other operations				
Operating revenues	122	125	127	150
Net revenues	6	4	3	5
Income from continuing operations	251	314	331	305
Loss from discontinued real estate operations	(10)	(13)	(20)	(397)
Net income (loss)	241	301	311	(92)
Net income (loss) applicable to common shares	239	291	302	(108)
Earnings per share				
Continuing operations	0.86	1.03	1.06	0.96
Discontinued real estate operations (loss)	(0.04)	(0.04)	(0.06)	(1.32)
Earnings per common share	0.82	0.99	1.00	(0.36)
Average number of common shares outstanding (thousands)	290,227	297,090	300,858	301,695

24. RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN CANADA WITH UNITED STATES GAAP

($ millions, except per share amounts)

	Quarters — 1990			
	First	Second	Third	Fourth
Net income — Canadian GAAP	265	268	269	345
Adjustments				
Foreign exchange	(11)	2	3	(2)
Equity in net income of associated companies	(4)	3	3	1
Other adjustments (a)	(3)	(2)	(3)	(3)
Net income — U.S. GAAP	**247**	**271**	**272**	**341**
Earnings per common share — U.S. GAAP	0.76	0.82	0.82	1.04

	Quarters — 1989			
	First	Second	Third	Fourth
Net income — Canadian GAAP	241	301	311	(92)
Adjustments				
Foreign exchange	6	(9)	18	13
Refund to subscribers of Bell Canada (b)	4	(105)	—	—
Equity in net income of associated companies	19	2	1	—
Other adjustments (a)	(1)	(2)	(2)	(3)
Net income — U.S. GAAP	**269**	**187**	**328**	**(82)**
Earnings per common share — U.S. GAAP	0.92	0.60	1.06	(0.32)

	Years ended December 31		
	1990	1989	1988
Net income — Canadian GAAP	1,147	761	846
Adjustments			
Foreign exchange	(8)	28	96
Refund to subscribers of Bell Canada (b)	—	(101)	13
Equity in net income of associated companies	3	22	78
Other adjustments (a)	(11)	(8)	(2)
Net income — U.S. GAAP	**1,131**(c)	**702**	**1,031**
Earnings per common share — U.S. GAAP	3.44	2.24	3.59

(a) Figures for 1990 and 1989 include additional amortization of goodwill related to Montreal Trustco Inc. assuming the amortization period would be 25 years rather than 40 years.

(b) Under United States GAAP, it is required to recognize in the current income the refunds to subscribers which occur in a period other than the period in which the related revenue was recognized.

(c) If Bell Canada's early retirement incentive plan in 1990 had been treated in accordance with the United States Financial Accounting Standards Board's Statement No. 88: Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, net income would have decreased by $108 million.

(d) United States Financial Accounting Standards Board has issued standards to account for income taxes to be effective in 1992, and health care and other postretirement benefits, to be effective in 1993. BCE has not determined the effect that these standards might have.

25. PENSIONS

BCE and most of its subsidiary companies have non-contributory defined benefit plans which provide for service pensions, based on length of service and rates of pay, for substantially all their employees. The policy is to fund pension costs, through contributions based on various actuarial cost methods, as permitted by pension regulatory bodies. Contributions reflect actuarial assumptions regarding salary projection and future service benefits. Plan assets are represented by common and preferred shares, bonds and debentures, cash and short-term investments, real estate and mortgages.

The present value of the accrued plan benefits and the net assets available to discharge these benefits at December 31 are:

	($ millions)	
	1990	1989
Actuarial present value of plan benefits		
Accumulated plan benefits		
Vested	4,729	4,369
Non-vested	922	906
	5,651	5,275
Effect of salary projection	2,112	1,802
Accrued plan benefits	**7,763**	**7,077**
Net assets available for plan benefits — at market value	**8,113**	**8,144**

The provision for pension cost and its components for the years ended December 31 are:

		($ millions)	
	1990	1989	1988
Service cost component	260	243	212
Interest on projected plan benefits	619	547	479
Return on plan assets	58	(1,072)	(698)
Other — net	(775)	464	147
	162	**182**	**140**

The provision for pension cost was calculated using a value of assets adjusted to market over periods ranging from 3 to 5 years, which amounted to $8,250 million at December 31, 1990 (1989 — $7,719 million, 1988 — $6,735 million). The weighted average discount rate used in determining the accumulated and accrued plan benefits, and the weighted average assumed long-term rate of return on plan assets, was 8.6% for 1990 (1989 — 8.2%, 1988 — 8.0%).

The cumulative difference between amounts expensed and the funding contributions is reflected on the consolidated balance sheet and is derived as follows:

	($ millions)	
	1990	1989
Excess of plan assets at market value over accrued plan benefits	350	1,067
Unrecognized net experience gains	(487)	(1,179)
Unrecognized net assets existing at January 1, 1987, being amortized over a weighted average of 17 years	(155)	(144)
Other unrecognized net plan benefits and amendments	171	196
Accrued liability included in the consolidated balance sheet	121	60

In addition to pension benefits, BCE and its subsidiary companies provide certain health care and life insurance benefits for retired employees. The costs of such benefits, excluding life insurance, are paid out of current income, as benefits are received, and in 1990 amounted to $17 million (1989 — $18 million, 1988 — $16 million). Life insurance for retired employees is largely funded during their working lives.

26. INDUSTRY SEGMENTS INFORMATION

BCE and its subsidiaries operate principally in three reportable business segments:

1) Telecommunications services, which includes the provision of voice, data, image, radio and television transmission, public exchange and private line teletypewriter and other telecommunications services, including directory operations;

2) Telecommunications equipment manufacturing, which involves the design, development, manufacture, marketing, sale, financing and service of central office switching equipment, business communications systems and terminals, transmission equipment, cable and outside plant products, and other telecommunications products and services; and

3) Financial services, which includes the financial intermediary business of accepting deposits or other borrowings and investing in residential mortgages, commercial mortgages, corporate loans and other securities and fiduciary activities such as personal trust, corporate trust, stock transfer and pension plan administration.

Other operations include international consulting services, printing and publishing, and other activities.

Details of revenues and supplementary data by business segment and geographic area are set out in the following tables.

26. INDUSTRY SEGMENTS INFORMATION (continued)

The following table sets forth revenues, net revenues and supplementary data for each of the corporation's business segments for the years ended December 31:

By business segment	1990	($ millions) 1989	1988
Revenues			
Telecommunications services	**8,468**	**8,011**	**7,092**
Telecommunications equipment manufacturing	7,851(a)	7,161(a)	6,598(a)
Intersegment revenues	44	57	59
	7,895	**7,218**	**6,657**
Financial services	**1,575**	**985**	**—**
Other operations	479	524	755
Intersegment revenues	25	29	74
	504	**553**	**829**
Elimination of intersegment revenues	**(69)**	**(86)**	**(133)**
Total revenues	**18,373**	**16,681**	**14,445**
Total net revenues			
Telecommunications services	2,176	2,028	1,838
Telecommunications equipment manufacturing	783	621	243
Financial services	61	58	—
Other operations	39	27	47
	3,059	**2,734**	**2,128**
Identifiable assets			
Telecommunications services	18,326	17,334	15,981
Telecommunications equipment manufacturing	6,229	5,861	5,428
Financial services	12,260	10,988	—
Other operations	551	583	525
Eliminations	169	226	(289)
	37,535	34,992	21,645
Investments	3,286	3,640	3,291
General corporate assets	1,166(b)	629(b)	645(b)
Discontinued real estate operations	—	—	407
Total assets as at December 31	**41,987**	**39,261**	**25,988**
Depreciation			
Telecommunications services	1,587	1,416	1,203
Telecommunications equipment manufacturing	399	377	363
Financial services	7	2	—
Other operations and general corporate	25	18	32
Total depreciation	**2,018**	**1,813**	**1,598**
Gross capital expenditures			
Telecommunications services	2,760	2,742	2,407
Telecommunications equipment manufacturing	515	436	618
Financial services	28	14	—
Other operations and general corporate	15	47	49
Total capital expenditures	**3,318**	**3,239**	**3,074**

26. INDUSTRY SEGMENTS INFORMATION (continued)

The following table sets forth information by geographic area for the years ended December 31:

By geographic area (c)	1990	($ millions) 1989	1988
Total revenues			
Canada			
Customers	12,966	11,670	9,717
Transfers between geographic areas	899	714	702
	13,865	**12,384**	**10,419**
U.S.A.			
Customers	4,929	4,612	4,337
Transfers between geographic areas	239	195	154
	5,168	**4,807**	**4,491**
Other			
Customers	478	399	391
Transfers between geographic areas	80	89	59
	558	**488**	**450**
Elimination of transfers between geographic areas	**(1,218)**	**(998)**	**(915)**
Total revenues	**18,373**	**16,681**	**14,445**
Total net revenues before research and development expenses			
Canada	3,157	2,982	2,728
U.S.A.	1,296	1,085	919
Other	1	—	27
	4,454	4,067	3,674
Research and development expenses	(1,019)	(1,008)	(998)
General corporate expenses	(376)	(325)	(306)
Restructuring costs	—	—	(242)
Other income (expense)	(935)	(499)	(478)
Income before income taxes and minority interest	**2,124**	**2,235**	**1,650**
Identifiable assets			
Canada	33,329	30,766	18,253
U.S.A.	3,932	3,864	3,488
Other	799	624	617
Eliminations	(525)	(262)	(713)
	37,535	34,992	21,645
Investments	3,286	3,640	3,291
General corporate assets	1,166(b)	629(b)	645(b)
Discontinued real estate operations	—	—	407
Total assets as at December 31	**41,987**	**39,261**	**25,988**

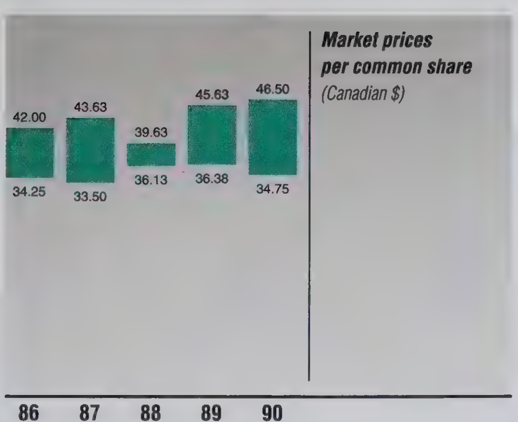
(a) Telecommunications equipment manufacturing includes revenues of $1,743 million (1989 — $1,733 million, 1988 — $1,597 million) from Bell Canada and other telecommunications subsidiary and associated companies of BCE. These revenues are not eliminated on consolidation. Telecommunications equipment manufacturing revenues of Northern Telecom from Bell Canada are at sale prices and terms as low as those offered to the most favoured customers of Northern Telecom for like materials and services under comparable conditions.

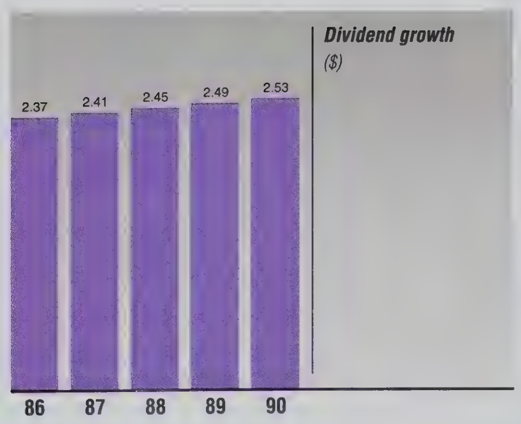
(b) General corporate assets are principally cash, temporary cash investments and deferred unrealized foreign currency losses. Also, the second instalment of $309 million, due by October 1, 1991, on the sale of common shares of TCPL by BCE, as part of units, is included at December 31, 1990.

(c) The point of origin (the location of the selling organization) of revenues and the location of the assets determine the geographic area.

Price ranges of common shares

	1990		1989	
	High	Low	High	Low
Montreal and Toronto				
1st quarter	$46½	$40¾	$39¼	$36⅜
2nd quarter	41⅝	37⅞	40⅛	36⅜
3rd quarter	39¼	35	42⅝	39½
4th quarter	40¾	34¾	45⅝	40¼
NYSE consolidated tape (US $)				
1st quarter	$40	$34¾	$33⅛	$30½
2nd quarter	35¾	32½	33½	30⅝
3rd quarter	33⅝	30⅜	36⅜	33
4th quarter	34⅞	30¼	39⅜	34¾





Dividends

Quarterly dividends of $0.63 per common share were paid in 1990 ($0.62 in 1989).

On November 28, 1990, an increase in the dividend on common shares was declared. The final 1990 quarterly dividend, which was paid on January 15, 1991, was raised to $0.64.

The indicated annual rate is now $2.56, an increase of $0.04 over the previous annual rate.

Number of shareholders

At December 31, 1990, there were 277,295 registered holders of common shares.

Selected financial and other data (consolidated)

	1990	1989	1988	1987
Income statement data ($ millions)				
Revenues				
Local service	3,054	2,885	2,631	2,489
Long distance service	4,100	3,902	3,505	3,403
Directory advertising and miscellaneous — net	1,314	1,224	956	866
Total telecommunications services	8,468	8,011	7,092	6,758
Telecommunications equipment manufacturing	7,851	7,161	6,598	6,471
Financial services	1,575	985	—	—
Other operations	479	524	755	1,092
Total revenues	**18,373**	**16,681**	**14,445**	**14,321**
Income from continuing operations	1,147	1,201	853	1,070
Net income	1,147	761	846	1,076
Balance sheet data ($ millions)				
Total assets	41,987	39,261	25,988	23,797
Common equity	10,090	9,548	9,214	8,885
Preferred shares (redeemable)	1,235	858	13	243
Minority interest	3,277	2,892	2,342	2,292
Long-term debt (including current portion)	7,788	7,471	6,511	5,972
Gross capital expenditures	3,318	3,239	3,074	2,803
Common share data				
Earnings per share				
Continuing operations	3.50	3.91	2.97	3.85
Earnings per common share	3.50	2.43	2.95	3.87
Assuming full dilution	—	—	—	3.81
Dividends declared per common share	2.53	2.49	2.45	2.41
Equity per common share	33.04	31.61	31.82	32.44
Return on common equity	10.8%	7.6%	9.2%	12.3%
Other data				
Network access services (thousands)	9,300	8,986	8,472	8,117
Long distance messages (millions)	1,821	1,695	1,455	1,254
Number of employees (thousands)	119	120	115	116

1986	1985	1984	1983	1982	1981	1980
2,380	2,354	2,295	2,224	2,136	1,918	1,626
3,204	2,974	2,739	2,481	2,277	1,972	1,625
806	638	507	371	278	250	205
6,390	5,966	5,541	5,076	4,691	4,140	3,456
6,114	5,829	4,359	3,276	3,005	2,570	2,034
—	—	—	—	—	—	—
1,063	1,051	715	550	734	719	562
13,567	**12,846**	**10,615**	**8,902**	**8,430**	**7,429**	**6,052**
974	1,007	935	830	615	556	273
979	1,009	935	830	615	556	273
21,576	19,506	17,396	14,772	13,211	12,201	11,243
8,217	7,200	6,252	5,307	4,257	3,859	3,471
257	313	378	423	522	362	454
2,134	1,798	1,349	800	528	447	398
5,052	5,041	4,609	4,282	4,567	4,449	4,168
2,322	2,217	1,961	1,604	1,765	1,714	1,598
3.63	4.04	4.01	3.88	3.07	3.00	1.44
3.65	4.05	4.01	3.88	3.07	3.00	1.44
3.60	3.97	3.90	3.76	2.99	2.91	1.44
2.37	2.30	2.205	2.105	1.99	1.84	1.68
30.97	29.26	26.78	24.68	22.68	21.74	20.75
12.1%	14.5%	15.8%	14.7%	13.7%	14.0%	9.5%
7,746	7,424	7,145	6,887	6,722	6,650	6,467
1,083	978	895	833	791	793	741
109	108	108	101	98	102	97

Board of directors

L. Beaudoin D.J. Johnston P.A. Allen
J. Guillevin Wood J.V.R. Cyr

M. Bélanger A.J. de Grandpré G.J. Maier
A.H. Ross L.R. Wilson

Peter A. Allen
Toronto, Ontario
Chairman, President and
Chief Executive Officer
LAC Minerals Ltd.
(mine exploration, development and production company, specializing in gold and other hardrock minerals)

Ralph M. Barford
Toronto, Ontario
President
Valleydene Corporation Limited
(private investment company)

Laurent Beaudoin, C.C., F.C.A.
Westmount, Quebec
Chairman and
Chief Executive Officer
Bombardier Inc.
(manufacturer of recreational, industrial, aerospace and transportation products)

Marcel Bélanger, O.C., F.C.A.
Quebec, Quebec
President
Gagnon et Bélanger Inc.
(management consultants)

John S. Brant
London, Ontario
Consultant
Emco Limited
(manufacturer and distributor of plumbing, building and environmental protection products)

Warren Chippindale, F.C.A.
Westmount, Quebec
(company director)

J.V. Raymond Cyr, O.C.
Montreal, Quebec
Chairman of the Board and
Chief Executive Officer
BCE Inc.

C. William Daniel, O.C.
North York, Ontario
(company director/consultant)

A. Jean de Grandpré, C.C., Q.C.
Montreal, Quebec
Founding Director
and Chairman Emeritus
BCE Inc.
Legal Counsel
Lavery, O'Brien
(law firm)

J. Peter Gordon, O.C.
Mississauga, Ontario
(company director)

Jeannine Guillevin Wood
Montreal, Quebec
Chairman of the Board and
Chief Executive Officer
Guillevin International Inc.
(distributor of electrical products)

C.R. Sharpe C.W. Daniel W. Chippindale
J.E. Newall J.P. Gordon

P.G. Stern E.N. McKelvey J.S. Brant
R.M. Barford L.B. Vaillancourt

The Honourable
Donald J. Johnston, P.C., Q.C.
Montreal, Quebec
Legal Counsel
Heenan Blaikie
(law firm)

Gerald J. Maier
Calgary, Alberta
President and
Chief Executive Officer
TransCanada PipeLines
Limited

E. Neil McKelvey, O.C., Q.C.
Saint John, New Brunswick
Legal Counsel
Stewart McKelvey
Stirling Scales
(law firm)

J. Edward Newall
Toronto, Ontario
Chairman and
Chief Executive Officer
Du Pont Canada Inc.
(manufacturer of chemical
and specialty products)

Alastair H. Ross
Calgary, Alberta
Chairman and
Chief Executive Officer
Pacific Enterprises
Oil Company (Canada)
(oil and gas exploration
company)

C. Richard Sharpe
Mississauga, Ontario
Chairman of the Board
Sears Canada Inc.
(retail department stores
and catalogue sales)

Paul G. Stern
Potomac, Maryland
Chairman of the Board,
President and
Chief Executive Officer
Northern Telecom Limited

Louise B. Vaillancourt, C.M.
Outremont, Quebec
(company director)

Lynton R. Wilson
Montreal, Quebec
President and
Chief Operating Officer
BCE Inc.

Committees of the board

Audit
M. Bélanger – chairman
R.M. Barford
L. Beaudoin
W. Chippindale
E.N. McKelvey
A.H. Ross
L.B. Vaillancourt

Investment
J.V.R. Cyr – chairman
M. Bélanger
J.S. Brant
C.W. Daniel
A.J. de Grandpré
J. Guillevin Wood
A.H. Ross

Management Resources and Compensation
J.P. Gordon – chairman
L. Beaudoin
C.W. Daniel
J.E. Newall
C.R. Sharpe

Pension Fund Policy
J.P. Gordon – chairman
P.A. Allen
J.V.R. Cyr
D.J. Johnston
E.N. McKelvey
P.G. Stern

Committees of the board

BCE has established permanent committees of the board of directors to permit continuing review of the areas of auditing, management resources and compensation, pension fund policy, and investment.

The *Audit Committee* reviews the corporation's financial statements and related data prior to submission to the full board. It advises the board on the adequacy, accuracy and timeliness of financial reports; on the efficacy of internal accounting, auditing and control procedures; and ensures that BCE continues to meet high standards of disclosure, fully compliant with all external requirements and reporting standards.

The audit committee also advises the board on the selection of the shareholders' auditors, and meets, both separately and together, with the auditors and management. BCE's audit committee consists entirely of outside directors; *i.e.*, directors who are not officers of BCE or its subsidiaries. The audit committee met six times during 1990.

The *Management Resources and Compensation Committee* recommends candidates for appointment or election to the board, ensures that qualified personnel will be available for appointment to officer and other management ranks, and assesses the performance of officers. All members of the committee are outside directors. The management resources and compensation committee met nine times during 1990.

The *Pension Fund Policy Committee* advises the board on the funding of pension liabilities and the investment of pension fund assets of BCE and certain of its subsidiary and associated companies. It also reviews and reports to the board on the activities of the pension fund trustee as directed by management. The pension fund policy committee met twice during 1990.

The *Investment Committee* is vested with the full powers and authority of the board in cases when investment decisions are required urgently. Its decisions are reported to the full board within 24 hours. The investment committee had no meetings during 1990.

Shareholder statistics

	At December 31				
	1990	1989	1988	1987	1986
Common shareholders by holdings					
1-99 shares	133,923	135,339	142,330	138,637	144,805
100-999 shares	120,578	128,958	149,608	153,438	166,161
1,000 shares and over	22,794	24,322	27,264	26,600	27,562
Total	277,295	288,619	319,202	318,675	338,528
Average number of common shares per registered holder	1,101	1,046	907	859	783
Total number of shareholders (including preferred)	278,825	289,465	320,470	327,226	348,441
Common shareholders by location					
Canada	270,805	282,008	312,320	311,847	331,623
Other	6,490	6,611	6,882	6,828	6,905
Total	277,295	288,619	319,202	318,675	338,528
Common shares by location					
Canada*	273,734,992	269,214,782	266,385,621	251,986,759	250,695,266
Other	31,676,944	32,837,400	23,160,103	21,881,716	14,580,430
Total	305,411,936	302,052,182	289,545,724	273,868,475	265,275,696

* Held by shareholders registered as residents of Canada

Corporate officers

J.V. Raymond Cyr
Chairman of the Board and
Chief Executive Officer

Lynton R. Wilson
President and Chief
Operating Officer

Robert Kearney
Group Vice-President
Telecom Services

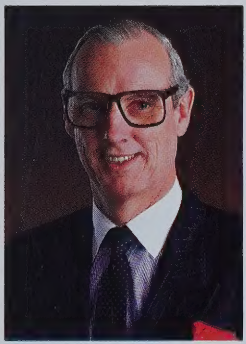
Henri A. Roy
Group Vice-President
International Telecom

Josef J. Fridman
Senior Vice-President, Law
and Corporate Services

Graham E. Bagnall
Vice-President and
Treasurer

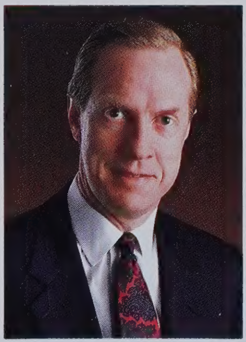
Guy Houle
Vice-President and
Corporate Secretary

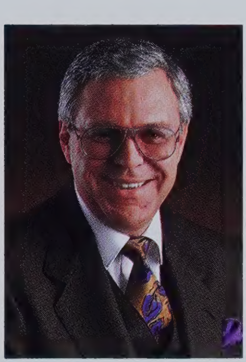
Donald R. Newman
Vice-President and
Comptroller


R. Kearney


H.A. Roy


J.J. Fridman


G.E. Bagnall


G. Houle


D.R. Newman

Departmental executive

Ivan Berggrun
Assistant Comptroller
Research, Budget and
Results

Jeffrey B. Finestone
Assistant Vice-President
Finance

Simon Jegher
Assistant Vice-President
Finance

David H. Orr
Assistant Vice-President
Corporate Relations

Marc J. Ryan
Assistant General
Counsel

Nichol A. Smith
Assistant Vice-President
Taxation

Reynold Tremblay
Assistant Comptroller
External Reporting

Leonard J. van der Heyden
President
BCE Corporate Services Inc.

Shareholder services and information

Dividend Reinvestment and Stock Purchase Plan (DRP)

Shareholders wishing to acquire additional common shares of BCE Inc. can take advantage of the Shareholder Dividend Reinvestment and Stock Purchase Plan. This plan provides a convenient method for eligible holders of BCE common shares to reinvest all of their common share cash dividends in new common shares of BCE.

Participating shareholders pay no brokerage commission or service charge of any kind and all administrative costs of the plan are borne by the corporation.

Payment of dividends – direct deposit

BCE Inc. shareholders resident in Canada may have their dividend cheques deposited directly to their personal account at most banks or other financial institutions. This service permits shareholders to arrange for the timely deposit of their dividend payments in a manner that is reliable, secure and convenient.

U.S. resident shareholders – choice of dollar denominated dividend payments

U.S. holders of common shares, who are resident in the United States and have not elected to have their cash dividends reinvested in DRP, normally have their dividends converted to and paid in U.S. funds, unless instructions to pay in Canadian funds are received.

Multiple mailings

In some cases, where a shareholder holds more than one class of securities, or when holdings are registered differently, the shareholder may receive more than one copy of publications such as annual reports. In such cases, please advise our transfer agent.

Do you wish to receive quarterly reports?

As BCE's results are published in the financial press shortly after the end of each quarter, an increasing number of BCE shareholders have elected not to receive quarterly reports. This results in a saving in both paper and expense.

Beginning in 1991, quarterly reports will be mailed only to those shareholders who have specifically asked to receive them. If you wish to receive quarterly reports, please advise Montreal Trust Company at the address identified below.

Canadian taxes on foreign investors

Income taxes

Dividends (including stock dividends) on BCE shares, paid or credited to non-residents of Canada, are subject to withholding tax at 25 per cent, unless reduced by treaty.

Under the United States-Canada Income Tax Convention, a withholding tax of 15 per cent applies to BCE dividends (including stock dividends) paid or credited to individuals residing in the United States, or corporations organized under the laws of the United States, which do not have a "permanent establishment" or a "fixed base" in Canada.

Gains on disposals of BCE shares by a non-resident of Canada are generally not subject to Canadian income tax, unless realized by the holder in connection with a business (including an "adventure in the nature of trade") carried on in Canada.

Estate and succession duties

There are no estate taxes or succession duties imposed by Canada or by any province of Canada.

Shareholder inquiries

For further information concerning DRP and how to participate, direct deposit, the elimination of multiple mailings and the receipt of quarterly reports, please write to:

Montreal Trust Company
P.O. Box 1100, Station B
Montreal, Quebec
H3B 3K9

Sur demande, le vice-président et secrétaire de la Société vous fera volontiers parvenir un exemplaire français du rapport annuel.

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Rochester, New York
a BCE company

Investor information

Transfer offices for stock

Canada:

Montreal Trust Company
St. John's, Nfld.
Halifax
Charlottetown
Saint John, N. B.
Montreal
Toronto
Winnipeg
Regina
Edmonton
Calgary
Vancouver

Outside Canada — Common shares only:

American Transtech, Inc.
New York, N. Y.

The Royal Trust Company
London, England

Registrar for stock

Canada:

Montreal Trust Company
St. John's, Nfld.
Halifax
Charlottetown
Saint John, N. B.
Montreal
Toronto
Winnipeg
Regina
Edmonton
Calgary
Vancouver

Outside Canada — Common shares only:

American Transtech, Inc.
New York, N. Y.

The Royal Bank of Scotland plc
London, England

Listing of stock

Canada:

The Montreal Exchange
The Toronto Stock Exchange
Vancouver Stock Exchange

Outside Canada — Common shares only:

Belgium
Brussels Stock Exchange

France
Paris Stock Exchange

Germany
Frankfurt am Main, Düsseldorf Stock Exchanges

Japan
Tokyo Stock Exchange

Switzerland
Zürich, Basel, Geneva Stock Exchanges

The Netherlands
Amsterdam Stock Exchange

United Kingdom
The Stock Exchange

United States
New York Stock Exchange

This report can be recycled

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In order to permit recycling of this entire document, the pages have been saddle-stitched, using staples, instead of being bound with glue. Aqueous coating has been applied to the outside cover, which is recyclable and repulpable.

Form 10-K

The annual report on Form 10-K is available, from the date of its filing with the Securities and Exchange Commission in the United States, by writing to:

The Vice-President and
Corporate Secretary
BCE Inc.
2000 McGill College Avenue
Suite 2100
Montreal, Quebec H3A 3H7